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Anti-Systems

ECONOMIC INSTITUTIONS COMPARED. By *P. J. D. Wiles.* New York: Halsted Press, John Wiley and Sons, 1977. xii, 608 pp. $22.50.

Economic Institutions Compared is Peter Wiles's contribution to the fledging discipline of comparative economic systems. Billed as a text for graduate students and intelligent laymen, the book begins with a theoretical discussion of work; proceeds with a detailed analysis of how microeconomic (chapters 3–11) and macroeconomic (chapters 12–15) institutions affect economic performance; and concludes with a disquisition on wealth, freedom, war, imperialism, and human destiny (chapters 16–21). Within this framework Wiles contrasts the institutions of capitalist countries (the United States), democratic state capitalism (the United Kingdom, Sweden, Denmark, Norway, Germany, Belgium, the Netherlands), *étatist* state capitalism (France), cooperativist populism (Yugoslavia, Algeria), market "Pannonian" socialism (Hungary), and Soviet-type command socialism (the Soviet Union, China, Poland, East Germany, Bulgaria, and most underdeveloped nations). Kibbutzim, moshavim, ejidos, Illyrian cooperatives, obshchiny, kolkhozy, sovkhozy, utopian communes, and idiorrhythmic monasteries are also extensively touched upon.

Preferring relevance to mathematical tractability, Wiles investigates this institutional profusion polymathically, supplementing economic theory with insights from anthropology, sociology, political science, and genetics (for example, "selfishness and even aggression are instinctive, like mother-love and the sexual appetite" [p. 490], or "human evil comes with the genes" [p. 491]). The narrative is organized thematically and the exposition is stream-of-consciousness. Each theme refers to a framework for economic activity. This device enables the author to demonstrate how every institutional setting, broadly construed, conditions the behavioral potential of enterprises, trade unions, cooperatives, slavery, banks, finance, investment, planning, inflation, and aggregate employment.

As an expositional strategy, the thematic approach has the merit of isolating the causal effects of specific institutions within systems, rather than imputing observed behavior to systems as a whole. This allows Wiles to demonstrate two points he deems essential: the malleability of economic behavior rooted in the plasticity of human nature and the comparative insignificance of systems ("I just do not think economic systems are that important" [p. 491]). Thematic narrative, however, can be exceedingly cumbersome. The endless comparison of the effect of diverse institutions on particular forms of economic activity is not only inherently tiresome, but verges on incomprehensibility unless the intelligent lay reader is given a larger context and some guidance on institutional taxonomy.

Wiles tries to alleviate the first problem with extensive cross references, but this is of little real assistance because his disjunctive style gives the reader little incentive to skip around in pursuit of elusive context. Inexplicably, no attempt is made to define what an institution is, how various institutions are interrelated, or what constitutes a

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system. As a consequence, unless the reader already possesses an extensive knowledge of institutional and systems theory, *Economic Institutions Compared* will read like a hieroglyphic—inscrutable in context, purpose, and method. Viewed as a text, the book is clearly unsatisfactory.

This, however, is of no importance because *Economic Institutions Compared* could never have been seriously intended as a text. It is, instead, a general critique of contemporary theories of institutional behavior, an incipient attack on the usefulness of comparative economic systems, and an affirmation of state capitalism. Both the critique and the assessment of comparative economic systems as a scientific discipline are predicated on the putative failure of pure theory to provide adequate explanations of institutional behavior. Basically Wiles argues that, contrary to conventional wisdom, firms do not possess coherent maximands; and, as a consequence, it is impossible to ascertain either optimally efficient factor use or optimal factor shares (chapters 4 and 10–11). Optimality is chimerical, and the notion that an ideal institution or economic system exists is fundamentally utopian.

Wiles's outlook is manifested concretely in the organization of the book. Although space is devoted to a myriad of topics, comparative appraisals of optimally functioning institutions and systems are omitted. Similarly, because Wiles believes that losses imputable to suboptimality, measured by foregone national income, are "likely to be rather small" (p. 245), no attempt is made to assess comprehensively the comparative performance of existing suboptimally functioning economic systems. These omissions jointly constitute a basic, hidden premise of *Economic Institutions Compared*: the assumption that, when all is said and done, economic institutions and systems contribute very little to the explanation of comparative economic performance!

Although this is an odd unstated premise for a book devoted to comparative institutional analysis, if, as Wiles maintains, the losses from suboptimality fall only ever so short of (chimerical) optimality, perhaps institutions and systems do not matter much. It is important to recognize, however, that any assertion about the correlation between systems and comparative performance, stated or not, constitutes an unverified hypothesis and cannot be considered axiomatically self-evident. Wiles may have recognized this. One could charitably construe his comprehensive assault on the special merit claimed for any existing and/or imaginable institution as proof by complete elimination. Or perhaps the deep cynicism that pervades this work is a form of implicit verification (p. 6). James Buchanan, in his review of the book, captures the ambience well: "The tone throughout is one of resignation. Wiles emphasizes the inherent contradiction between collectivism and individualism in Soviet-type economies. . . . At the same time, however, he considers advanced capitalist economies, under democratic governments, to be unable to control trade unions and, through them, cost inflation" (*Canadian Journal of Economics,* 11, no. 1 [February 1978], p. 161). If resignation is justified, does it not follow that systems are not very important?

There are grounds for doubt. Wiles himself seems to be of two minds. Although the contributions of institutions and systems to comparative performance are too slender to merit explicit consideration, we are told that "at least systems can and should be improved" (p. 491). But this really is an enigma. If things can and should be improved, does it not follow that some institutional and/or systemic arrangements are better than others, and that rigorous scientific comparison may enable us to ascertain the sources of their differential merit? In fact, isn't it perfectly obvious that just such differences may significantly explain why the diverse economies of the world behave as they do? Wiles avoids coming to grips with this contradiction by an appeal to omnipresent "externalities" and X-efficiency. Differential productivity and differential economic performance are ubiquitously imputed to these nebulous causes, with no place implicitly left for institutions and systems. The obverse of a covert, systems-irrelevance hypothesis is an explicit inference that where institutions and systems exhibit differential productivity this is attributable to externalities and X-efficiency. Perhaps this is so, but assertion, like omission, is not proof. A thorough econometric and statistical appraisal is required.

Looking beyond the technical question of identification, however, the issue of how systems should be improved, as opposed to whether they can be improved, still needs to be addressed. Wiles has strong opinions on this subject and they are scattered unsystematically throughout the book. Ignoring his omitted premise, he cautiously suggests that political freedom and institutional pluralism are probably conducive to improving economic performance. Presumably they are positively correlated with external economies and X-efficiency and should be considered differentia specifica of preferred systems. A substantial degree of planning is required as well, because "perfect competition is centralized and not a myth" (pp. 271–74). Egalitarianism is another aspect of the good society. This follows perhaps from his rejection of optimality and optimal factor shares. Applying the principle of "insufficient reason," he may have concluded that if factor differentials are unearned they should be eliminated. The ideal economic system emerging from these considerations (depicted à la Marx not as an explicit ideal, but as the probable outcome of a perceived historical tendency) is characterized by "rather a lot of sophisticated state planning, a market for detailed matters, little private equity in enterprises, a high social minimum but somewhat unequal earned incomes, considerable worker participation and rough equality of capital holdings" (p. 543). It is state capitalism in its highest form, something akin to the practice in the northwestern corner of Europe, but a little better. It is, one can infer between the lines and through a process of elimination, a vision of British state capitalism. Little England sinking beneath the waves is Wiles's new Atlantis!

Perhaps to placate those irreverent young radicals who can be expected to sneer, smirk, and hoot at the notion that British state capitalism will evolve into the supreme form of human organization, Wiles explains that "I would therefore naturally prefer most kinds of socialism to most kinds of capitalism—were it not for my fear of the intolerance and contempt for the incompetence of actual socialists" (p. 7). He also might have preferred communism, were it not "unnatural," or preferred even cooperative populism, were it not so "puerile." Therefore, in the absence of computopia, and despite its acknowledged deficiencies, "dry eyed objectivity" compels Wiles to imply that British state capitalism may well be the most acceptable (suboptimal) system conceivable because it promotes state planning, economic freedom, institutional pluralism, and economic justice (egalitarianism achieved through high taxation and cost inflation! [p. 553]).

One does not have to be a London School of Economics Maoist to suspect that this improbable conclusion is predicated on hocus-pocus, hornswoggling, and prestidigitation. The sources of Wiles's deductive fallacies are legion. Protestation to the contrary notwithstanding, refusal to commit himself to rigorously formulated theories gets him entangled in endless contradictions and normative sleights of hand. It is invalid, for example, to infer that either intra- or intersystemic comparative productivity cannot be appraised just because optimal market and optimal planning solutions are operationally unattainable, or, by extension, that the only valid criteria of systems merit are egalitarianism, a modicum of democracy, and institutional pluralism.

In any economic environment some firms will conspicuously outperform others. Although the sources of differential productivity may not be readily deducible from general equilibrium theory, through a process of trial and error, altering the pattern of production, varying factor proportions, or experimenting with the reward structure, more efficient modes of operation can be distinguished from the less efficient. Since differences in productivity imply potentially avoidable foregone returns to agents in the subnormal firm, an incentive will always exist to identify and duplicate best practice. The comparative merit of alternative institutions and alternative systems therefore does not rest solely on normative grounds. It can be evaluated, at least in principle, in terms of observable differences in intra- and international total factor productivity, and by single factor productivity determined through controlled experimentation; and it can be assessed dynamically by studying comparative informational efficiency, as well as the implementation and rate of diffusion of best practice.

The same positivist argument holds for all other forms of productivity: financial, marketing, banking, investment, and so forth. Without interjecting the concept of utopian optimality, intra- and intersystemic comparative appraisals of performance are entirely feasible. The possibility of comparative positive evaluation, of course, implies nothing whatsoever about which systems are likely to outperform others. This is an empirical matter which cannot be decided by intuitive appeals to untested bodies of theory. However, and this is the crucial point, scientific appraisals of comparative institutional and systemic performance can be undertaken in the world as it exists. The putative irrelevance of optimality is itself irrelevant to any evaluation of comparative economic systems as a scientific discipline which has not been prejudged by a vacuous appeal to X-efficiency.

Economic Institutions Compared is a very difficult book to review. The narrative rambles through six hundred pages. Countless topics are introduced helter-skelter. Rigorous analysis is eschewed and proof by assertion is epidemic. Methodologically, the author relies almost exclusively on selective, a priori critique and arithmetic. Hypothesis testing, econometrics, and statistics are alien to Wiles's outlook as are the still more sophisticated concepts of real science developed by Popper and Harré. Far too often recourse is made to polemical tricks—unsubstantiated claims to "dry eyed" detachment, strict objectivity, and "open-minded pedantry." Proof is achieved by illusion, omission, and even by digression: for example, instead of explaining how Soviet microplanning operates in the absence of horizontal enterprise links (pp. 278–85), Wiles jumps off course to discuss Weber, Fayol, Saint Simon, and Taylor, and then abruptly abandons the theme entirely in favor of agricultural planning (pp. 285–88). Worst of all, however, is his failure to articulate his central thesis in a forthright, rigorous, and inclusive manner so that other scholars might assess its merit without having to guess what he intended, or sort through a mélange of ad hoc assertions derived from inconsistent logical premises. This deficiency not only detracts from the cogency of the author's analysis, it hopelessly obscures his real message and precludes a genuinely important contribution to the theory of comparative institutional behavior.

Summing up then, it must be concluded that *Economic Institutions Compared* is neither a text nor a systematic analysis of economic institutions. It is a haphazard series of comparisons, critiques, and opinions tangled together, challenging the usefulness of comparative economic systems as a scientific discipline, and implying the tendentious proposition that British state capitalism, characterized by a withering return to equity-based capital and effective income redistribution, is the most sensible economic system attainable. Despite the dubious nature of these themes, the text as always is enlivened by Wiles's wit and idiosyncratic brilliance. But it is also seriously marred by a basic unwillingness to formulate, test, and corroborate theories according to contemporary standards of scientific method. As a consequence, *Economic Institutions Compared* must be deemed in the main an overlong and disappointing exercise. In the final analysis, its conclusions, instead of resting on empirically validated and rigorously articulated theory, for the most part rest on unverified personal opinion. Or as Wiles himself aptly put it " 'jellification' is not a proper theory, a coherent body of interesting propositions. It is merely Max Weber's comeuppance, a refutation of a proper theory that substitutes nothing positive. There is no systems theory, only the systems approach" (p. 90).