CHAPTER 2

The Capitalist System: Empirical Regularities

This book seeks to explain the economic process in the capitalist system, and therefore we need to know what are the facts to be explained. This chapter presents a set of empirical regularities about production and distribution in capitalist countries, which has been taken from the international literature.

Scope of the Book: Capitalist Countries, 1950–2010

The theoretical definition of capitalist societies was given in the previous chapter. The empirical counterpart of the capitalist system will refer to those independent countries that have been operating since post–World War II, or most of the time, under the institutional norms of capitalism in which the following hold good: (a) private property of physical capital is more predominant than state property; (b) the market system is more predominant than nonmarket forms of exchange of goods between individuals; (c) democracy is the predominant form of governance, although it includes different degrees of people participation in public policies.

According to this empirical definition, and using World Bank statistics, there are 174 countries in the world that may be classified as capitalists during all or most of the period 1950–2010. They will be divided into two groups: the First World and the Third World. The First World consists of the richest 23 countries, according to World Bank estimates. They are: Australia, Canada, Japan, New Zealand, United States, and the 18 countries of Western Europe (Austria, Belgium, Denmark, Finland, France, Germany, Greece,
Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom). The rest of the 151 countries constitute the Third World.

Just for the sake of completeness, we should say something about non-capitalist countries. Socialist or communist countries are characterized by the predominance of state property of physical capital over private property, the predominance of state planning over markets, and authoritarian political regimes over democracy in all or most of the period 1950–2010. This category, sometimes called the Second World, consists of 33 countries. They can also be separated into two groups. The first group consists of countries “in transition” to capitalism due to the introduction of market reforms since the 1990s, which include the countries of Eastern Europe, the Balkans, and the ex-Soviet Union. In the second group, those that have remained as communists in most of the period of analysis, we find only five countries, which include China, Cuba, Laos, North Korea, and Vietnam.

This classification intends to be stylized, ignoring some details. For example, some capitalist countries of today were under communist regime for short periods. However, considering countries that were under a communist regime for 10 to 17 years, the longest periods recorded, the list includes only six countries: Angola, Benin, Congo, and Mozambique in Africa, and Afghanistan and Cambodia in Asia.

The scope of this book is the study of the capitalist system only: production and distribution in the First World and the Third World, as defined above. The period of analysis will be limited mostly to the period 1950–2010. This selection is due to the constraint in availability of statistical information.

Surely, the book is not about production and distribution in the entire world economy. Therefore, it should be clear from the outset that the Second World countries, as defined above, are not part of the analysis of the book.

In particular, the reader should keep in mind that China is not part of the analysis presented in the book. Given its large population size and its rapid economic growth in the last decades, China has changed the level and the structure of the world economy. However, China is not a capitalist country even today and cannot be introduced into a theoretical system that assumes the capitalist form of production and distribution. China’s economic growth has increased the size of world output and international trade, but it has not changed the rules under which capitalist countries operate. So China can safely be ignored in the analysis of capitalism over the past six decades. The empirical data on production and distribution in the capitalist countries presented in the book include implicitly the China effect, although the size of this change will not be singled out.