

# INSTITUTIONAL ECONOMICS





NEW

SZÉCHENYI PLAN

# INSTITUTIONAL ECONOMICS

Sponsored by a Grant TÁMOP-4.1.2-08/2/A/KMR-2009-0041

Course Material Developed by Department of Economics,

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The project is supported  
by the European Union.

National Development Agency  
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The projects have been supported  
by the European Union.

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# INSTITUTIONAL ECONOMICS

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June 2011

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## Week 3

### "Old" Institutional Economics I Marxism and the German Historical School

János Mátyás Kovács

# Contents

- Marx
- Collectivist utopias
- German Historical School

# Marx

- Marx versus Marxism
- Did Marx have a concept of institution at all?
  - Institutions and systems: capitalism versus communism
  - Social-economic formations
  - Modes of production
  - Production relations, property relations
  - Division of labor
  - Superstructure, state
  - Classes and hierarchies
  - The capitalist firm
  - Market, commodity, capital, competition
- Institutions and interests
- Historical/dialectic approach
- Institutional change and revolution
- Class struggle: natural selection?

# Marx (cont.)

- Is the Marxian concept of institution empirical?
- Material interests: utilitarian bias?
- Acquisitive values, and incentives
- Rationality without methodological individualism
- Agency problem: determinism; historical laws and institutional change
- Capitalism: homogenizing the non-capitalist institutions (Engels: family, state, private property)
- Development scenarios: change versus progress, evolutionary optimism
- Marx as a German historicist: methodological collectivism?

# Marx (cont.)

## Analytical (rational choice) Marxism

- An attempt at reinterpretation within the Marxian paradigm in the framework of the revisionist wave of the 1970/80s
- The revision happened to become more radical than in the case of neo-Marxist tendencies.
- It concerned the theory of capitalism rather than communism: *September Group* (John Roemer, Jon Elster, Adam Przeworski, etc).
- Basic issue: social class and collective action (common interests?, class consciousness?; how to solve the problem of free riding?)
- Group size, leadership, culture, class struggle

# Marx (cont.)

## Analytical (rational choice) Marxism

- Providing a neoclassical (game theoretical, general equilibrium-based) proof for exploitation and the existence of classes – without referring to the labor theory of value, with the help of methodological individualism and micro-foundations, etc
- Elster: *Making Sense of Marx* (1985), Roemer: *General Theory of Expolitation and Class* (1982)
- Following 1989, Roemer makes an attempt at justifying the concept of market socialism analytically: private ownership can be eliminated, the market cannot (Pranab Bardhan and John Roemer (eds): *Market Socialism. The Current Debate*, 1993).

# Marx (cont.)

## Communism as institutional design

- Communism as an institutional problem in the Marxian *oeuvre*:
  - The philosophical/political concept of communism (communism as a negation of capitalism) is firm and emphatic whereas the economic one is indeterminate.
  - Ambiguous assertions: central versus decentralized allocation of resources, status of the firm, principle of equality
  - Yet, the general institutional framework is unambiguous: lack of private property, planned coordination, measurement in working time, exchange in kind, free division of labor, etc.

# Marx (cont.)

## Communism as institutional design

- Does that framework have analytic foundations?
- The model of capitalist reproduction was not extended to communism by Marx.
- In value theory, both the concept of use value and the thesis of calculation in working time are shaky (mistaken).
- The same applies to the concepts of surplus value and the price of production but the theory of communism might do without these (true, the collapse of capitalism could not be proven)
- What does planning, collective ownership and self-managemnet mean? What will these institutions look like?
- An enormous demand for institutional design in the workers' movement at the end of the 19th century

# Collectivist utopias

- Realism versus utopia: how to imagine the *Zukunftsstaat*?
- The leading economists of the time do not insist on a dialogue with the Marxists (exceptions: Böhm-Bawerk and Pareto) while the Marxists feel justified: their theses seem to resonate with the *fin-de-siècle* utopias and the new theories of war economy (economy in kind); illusion of modernity.
- The Marxists have their own internal discussions (Kautsky, Bernstein, Hilferding, Luxemburg, Plekhanov, Bogdanov, Lenin, etc), and/or quarrel with those economists who do not belong to the group of the future neoclassical theorists (exception: Bukharin against Böhm-Bawerk).

# Collectivist utopias (cont.)

- How does the Bolshevik economist emerge? Where does War Communism come from?
- Nationalization, centralization, redistribution, planning, calculation in kind, militarization, labor army, etc – what is the intellectual origin of these institutions?
- Old patterns of *étatisme* ranging from Confucius and Plato, through Campanella, Morus , Babeuf, Blanqui, Owen, Saint Simon, Fourier, the socialist Ricardians, J.S.Mill, to Rodbertus, Lassale, Proudhon, the French and Russian anarcho-syndicalists, etc.

# Collectivist utopias (cont.)

- The *Vaterfigur* of the Bolsheviks was Germany: Cathedra socialism, social democracy, the idea of the “developmental state“ from Bismarck to Rathenau; statism and protectionism.
- As to the II. International, the Leninists reject what they call evolutionism, economism, reformism prevailing in the workers‘ movement but share its image of the future.
- The social democrats against *Zukunftsmacherei*: nevertheless, they have to satisfy the messianistic expectations of their clientele.
- Utopias are tolerated: Edward Bellamy (*Looking Backward*), Theodor Hertzka (*Freiland*), William Morris (*News from Nowhere*), Atlanticus/Karl Ballod, (*Zukunftsstaat*); there are dystopias as well (Richter, Zamiatin, Huxley)

# Collectivist utopias (cont.)

- Institutional basics of the future economy:
  - No private property; if there is a state at all (Bellamy), it serves rather than dominates the economic actors; it is checked from below; production is organized (large firms or small companies?); egalitarian distribution (in kind? rationing?); centralized accounting
  - End of scarcity, rapid technological development (electrification: Ballod-Lenin), moral incentives, standardized human needs, transparency, differences between physical and intellectual work, urban and rural life, family and society disappear

# Collectivist utopias (cont.)

- Justice, fraternity, freedom: (“cold“ and “warm“ versions: Bellamy versus Hertzka)
- Ways of transition to the “state of the future“: Morris (through collapse, civil war, victory); Richter: (military dictatorship, corruption, chaos)
- What is the official view of the II. International? Marxists acknowledge the civilizational merits of capitalism: organized production, rational administration, centralization, concentration, discipline (military?), etc.
- German social democrats leave the idea of the self-governing units of associated producers behind, accepting that of the “economy as a single factory“ (1891: Erfurt Program); merits of the Bismarckian system: nationalization, rational bureaucracy, welfare regimes.

# Collectivist utopias (cont.)

- War economy and economy in kind: concepts connecting East and West (Neurath, Ballod-Atlanticus, Tschaianov, Larin, Kritsman, etc); the success story of German war economy (Rathenau and Möllendorf, central office of raw materials, workers' mobilization, etc); idealization of the peasant household as an economy in kind; Neurath: through war economy to an economy in kind; *Verwaltungswirtschaft*; socialization and nationalization
- “Socialist“ ideas of the early marginalists – Walras: nationalization of land, Jevons: state intervention, Marshall: progressive taxation.
- Why quarrel if there is general agreement?

# German Historical School

- Original source of modern institutionalism?
- Solow: if there had not been the *Methodenstreit* (see next presentation) no one would remember the German historicists.
- Classical political economy was not popular in Germany; instead: cameralism, protectionism (List), romanticism (Müller) – collectivist institutional concepts
- Two generations: 1. Roscher, Hildebrand, Knies (Leipzig, Jena, Heidelberg), 2. Schmoller, Weber, Sombart
- German *Sonderweg*: nationalism, state paternalism, protectionism, social-reformism (*Verein für Sozialpolitik*)
- *Volkswirtschaft* as a basic institutional notion (country/nation/system as analytical units); national specifics; *Nationalökonomie* as macro-economics?
- Institutions and “organs”: economics as anatomy; biological metaphors

# German Historical School (cont.)

- Institutions: consistent systems of habits, moral norms, laws; cultural/religious sensitivity; institutions as knowledge; *Geist*: Weber and the spirit of capitalism
- Spontaneous and planned organizations
- Society as an organism (Spencer's influence)
- Assumption: classical political economy does not explain rapid institutional change (emergence of the nation state, industrialization, catching up): it is not a new theory but new facts that are needed in the first place; economic history, statistics
- Rejection of universal laws; inductivism; law, ethics and history; against "ahistorical rationalism"
- Roscher: economics is a pure empirical science, its subject is history.
- Realism, descriptive approach, accuracy
- Comparative research, periodization, *Zeitgeist*

# German Historical School (cont.)

- Impact on the British-American economists (Ingram, Leslie, Cunningham, Foxwell): the laws of classical political economists (private ownership, monetary exchange, wage labor, etc) do not apply to certain countries (cultural/institutional differences).
- British *Methodenstreit*
- Marshall also flirts with historicism: accepting the idea of national specifics; biological analogies (young versus old institutions)
- German Historical School: vast impact on economists in Central and Eastern Europe.
- The school was able to mix with a large variety of ideologies: socialism, liberalism, conservatism, fascism.

# Readings

## **Mandatory**

Marx: A Gothai Program kritikája, 1875

Bence–Kis–Márkus: Hogyan lehetséges kritikai gazdaságtan, 1992

Schumpeter: History of Economic Analysis, 1954 (chapters)

Madarász: Sehonnai szakácskönyvek..., 1990

Pearson: Was There Really A German Historical School of Economics?, 1999

Weber: A protestáns etika és a kapitalizmus szelleme, 1995

## **Additional**

Böhm-Bawerk: Karl Marx and the Close of His System, 1896

Elster: Making Sense of Marx, 1985 (chapters)

Neurath: Through War Economy to Economy in Kind, 1919

# Annex

## Biographical sketches

- Marx
- Neurath
- Weber
- Sombart

## Final questions

- Predecessors/successors of the school
- Friends and foes
- Discoveries
- Changes in the research program