

# INSTITUTIONAL ECONOMICS





NEW

SZÉCHENYI PLAN

# INSTITUTIONAL ECONOMICS

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## Week 12

Reception of institutional economics in  
Eastern Europe II

Speculative institutionalism in reform economics

János Mátyás Kovács

# Contents

- Reform economics
- Reformers' speculative institutionalism
- At the border of new institutional analysis

# Reform economics

- What could/did the reformers know about the economy of real socialism?
  - Liquidation of private property, centralized state economy, macro-planning, forced industrialization, militarization, one-party state, large public enterprises, collectivized agriculture, limited role of money and free prices, egalitarian distribution, full employment, etc
- But it was not clear
  - in what logic these institutions are linked
  - what legal/organizational features they have
  - how large their informal segment is
  - how they behave and how high their performance is

# Reform economics (cont.)

- What is behind the breath-taking pace of Soviet-type modernization?
  - Quantity and speed rather than quality, shortages, failed plans, overinvestment, cycles, waste, shadow economy, etc
  - In sum, "empty" growth, low efficiency and imbalance (predicted in SCD and partly analyzed by Soviet scholars during the 1920s)
- First quasi-analytical reports from the Eastern Bloc (1953–60): Bajt, Behrens, Bródy, Brus, Goldman, Horvat, Kohlmey, Kornai, Laski, Levcik, Liberman, Lipinski, Péter, Sik, Varga, Wakar, etc
- Verbal interpretation but empirical research appears on the scene of Eastern European economics; talking about essential/burning issues; not yet in the language of modern economics (socialist commodity production, plan and market, self-management, etc); growing demand for a precise description



# Reform economics (cont.)

- In principle, reformist thought could have evolved toward any school of OIE, if there had not been censorship, if a little help had come from the West, and if optimal planning had not become so attractive.
- Western economists dealing with Soviet-type societies got stuck with the concept of command economy (Grossman), and considered planning, unambiguous hierarchy, centralization, etc as unquestionable facts.
- Remaining on the surface, they regarded bargaining, administrative markets, the shadow economy, etc as of secondary importance.

# Reform economics (cont.)

- Standard analytical research was rare (Ward: "Illirian firm"; Domar: Soviet cooperative farms; Vanek: workers self-management); later: Bergson, Bonin, Keren, Hunter, Weitzman).
- Rather: non-formal inquiries (Berliner/Granick: Soviet managers; Montias/Levine: in-kind planning, etc); there was much empirical material to explore; "expeditions to the natives"
- Reason for the non-analytic/anthropological approach: if there is no market and private property, if there are no rational agents, then the standard neoclassical instruments do not apply.

# Reform economics (cont.)

- It takes time to assume rational motives in the case of real socialist economic actors; until then: stating that they behave in an irrational way, yet, the economy works/grows.
- Why? Extensive growth, forced behavior, indoctrination, etc; maybe, growth is not so impressive.
- Collecting information for a future institutionalist research program?
- Reform economics proceeds along various paths; reform ideas become tolerated (even supported from time to time); 1965–68: the first/last synchronous reform wave in the region; since then: successive radicalization (caesuras: 1968, Czechoslovakia, 1981, Poland)

# Reform economics (cont.)

- Conventional types of reform projects: naive-Lange-type (market socialist), Galbraithian, planometric, entrepreneurial, Pannonian and Illirian, Chinese, etc – mediocre quality of comparative studies
- The Western partners in making reformist typologies are, as a rule, area specialists (Friedman's late pamphlet is an exception) and/or representatives of Comparative Economic Systems
- Anatomy of the reform economists:
  - reform bargaining/mongering
  - commuting between science and politics, party and opposition, East and West, socialist and liberal principles

# Reformers' speculative institutionalism

- Reform economics does not become a “veritable” institutionalist discipline even in its most radical version
- What is meant by “speculative institutionalism”? Reformism is also normative and mythical (apologetic and ideological) like its predecessors
- A political discourse of partial marketization of the planned economy in the framework of dominant public ownership and one-party dictatorship
  - Verbal analysis and holistic concepts while intending to make micro-research
  - Institutional mission, lack of both precise empirical study and abstract theory (cf. plan-and-market discourse)

# Reformers' speculative institutionalism (cont.)

- Eclectic methodology and improvisation; pragmatic concessions: "maybe economics"
- Superficial historical analogies: war communism and Stalinist planning as well as the NEP and the post-Stalinist reforms; inventing the "classical system"
- Insisting on simulation, social engineering, and Grand Designs
- Instrumentalist approach to the market process (concept of mechanism)
- If institutionalism at all, then a speculative one
- Major objective: inventing the *perpetuum mobile* of the communist economy
- Radicalizing reformist thought: stages, waves
- Socialist versus social market economy

# At the border of new institutional analysis

- Why does reform economics not evolve into NIE?  
Or why does it do so that slowly?
- Instinctive institutional interest and mathematical knowledge are available: why can't they leave reformism behind even after 1989?
- Attraction of reform economics: its lukewarm nature; celebrated results with relatively small scholarly effort; local prestige and political influence as well as some international recognition
- Are the imported institutional ideas of low quality?

# At the border of new institutional analysis (cont.)

- The contours of NIE are unclear ("America is far away") but OIE has always been nearby: Ordo liberalism (Freiburg)
- A comfortable solution? Joining universal economic science by leaving the concept of socialist market economy for *Soziale Marktwirtschaft*? Hayek as a potential link between Freiburg and Chicago, OIE and NIE
- However, *Soziale Marktwirtschaft* becomes a political rather than an economic notion in the region.
- Paradoxically, a "leftist" tendency within reform economics happens to approach NIE first: workers self-management (e.g., analysis of the Ward and the Pejovich-Furubotn effects).



# At the border of new institutional analysis (cont.)

- Let us ask the question again: what prevents the encounter of OIE and neoclassical theory in Eastern Europe prior to 1989?
- True, the economists do not read Schmoller or Veblen, nevertheless, there are a number of more recent "old" institutionalists who are popular among the reformers (from Polányi to Galbraith and Hirschman).
- With the consecutive failure of the reform projects, economic thought in the region becomes increasingly radical (touching on the taboos of capital markets, private ownership, multi-party system, etc); the Western contacts become much more frequent.
- In the West, a conservative wave deletes much of the "old" institutionalist leanings, and the NIE disciplines get stronger.
- What seems heterodoxical in the West (historical/legal/political reasoning in economics, multidisciplinary research, etc) is part of local orthodoxy in the East.
- Is 1989 a turning point?

# Readings

## **Mandatory**

Wagener (ed): Economic Thought in Communist and Post-Communist Europe, 1998 (chapters)

Galasi és Kertesi: Korruptió és tulajdon, 1990

Grosfeld: Reform Economics and Western Economic Theory. Unexploited Opportunities, 1992

Wiles: Economic Institutions Compared, 1977 (chapters)

Kornai, The Hungarian Reform Process, 1986

## **Additional**

Kornai: Economics of Shortage, 1980 (chapters)

Kovács: Compassionate Doubts about Reform Economics, 1992

Brus: A szocialista gazdaság működésének általános problémái, 1967 (chapters)

Nove: The Economics of Feasible Socialism, 1983 (chapters)

Vanek: The General Theory of Labor-Managed Market Economies, 1970 (chapters)

# Annex

- Biographical sketches
  - Bergson
  - Brus
  - Tardos
- Final questions
  - Predecessors/successors of the school
  - Friends and foes
  - Discoveries
  - Changes in the research program