

INSTITUTIONAL ECONOMICS

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

Course Material Developed by Department of Economics,
Faculty of Social Sciences, Eötvös Loránd University Budapest (ELTE)

Department of Economics, Eötvös Loránd University Budapest

Institute of Economics, Hungarian Academy of Sciences

Balassi Kiadó, Budapest



Author: János Mátyás Kovács
Supervised by János Mátyás Kovács

June 2011

Week 12

Reception of institutional economics in Eastern Europe II

Speculative institutionalism in reform economics

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
- 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
- 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.
- 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.
- 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)
- 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)
 - 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?
- 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).
- 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