

INSTITUTIONAL ECONOMICS

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Reception of institutional economics in Eastern Europe III

Acceptance and rejection of New Institutional Economics after 1989; the case of Hungary

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Borderline-case economics?

- By the early 1980s, the radical-minded reform economists are ready to switch from speculative to “normal” institutionalism.
 - Knowledge of institutional behavior grows rapidly (case studies and comprehensive research on investment cycles, public finance, informal economy, foreign trade, labor market, etc).
 - Neoclassical theory (“mathematical economics”) trickles down from optimal planning, and new university courses are launched in econometrics (and in macro- and microeconomics in some countries).
- The radicals approach a sort of “borderline-case economics“: they study *in vivo* the *in vitro* problems of Western market economies (shortages, business cycles, informality, government failures, etc).
- However, a common language on property rights, principal-agent relationships, moral hazard, rent seeking, etc, and – more importantly – on the concept of rationality in general is lacking.
- Remaining obstacles
- From the perspective of the theory of science:
 - The older generations are traditionally interested in macro- rather than micro-problems.
 - The case study authors and the scholars working on current economic history prefer “thick description“ to model building; they reinvent NIE concepts (property rights, government failure, etc) rather than taking them over.
 - They regard the Yugoslav economic institutions as too collectivist and highly specific.
 - The younger experts are hungry for a rigorous and consistent (pure) theory instead of borrowing another (suspicious) mixture such as the NIE as they perceive it.

- Even in the eyes of radical reformers, the gap between market socialism and neoliberalism is too large; they rather opt for some kind of social liberalism (regulated versus free markets); devoted neoliberal thinkers are rare (exceptions: Poland, Winiecki, Lewandowski; Czechoslovakia, Klaus' group; more complicated cases: Hungary, Liska with his “entrepreneurial socialism”; Soviet Union, Shmelev).
- From the perspective of sociology of science
 - The reformer as political entrepreneur: certain concepts of NIE (e.g., property rights) are iconoclastic; they may jeopardize cooperation with the ruling elite.
 - It is difficult to harmonize the social engineering roles of the reform economists with NIE's evolutionary philosophy (this remains problematic after 1989: from reformers to “transformers”) as well as reform from above with spontaneous change from below.
 - The communist system collapses “too early”: a specific – Eastern European – NIE does not have time to unfold freely

Theory of shortage

- Equally important is the fact that it seems that Eastern European economists are not exposed to Western imports: good-quality domestic goods are available as well:
- First of all: economics of shortage (Kornai); reservations concerning reform economics do not seem to apply to it because the theory
 - is formulated in both mathematical and verbal terms
 - relies on abstract and empirical research
 - strives to quantify its results
 - description and analysis offset normative conclusions
 - provides a comprehensive and systematic explanation of institutional behavior (a new political economy of real socialism? *Das Sozial?*)
 - experiments with new concepts (paternalism, rush, friction, forced substitution,

soft budget constraint, etc)

- captures the essence of the system: shortage
- conducts a dialogue with modern economics: Anti-equilibrium and the theory of soft budget constraint; reflecting on Keynes: cyclical lack of demand versus chronic excess demand
- is not speculative: clear assumptions, exact definitions, testing
- is suggested by an author who is not a reform-maker cooperating with the party-state (though exercising self-censorship)
- Yet, the "Economics of Shortage" :
 - disregards a great many crucial institutional factors: public ownership, one-party system, militarization, shadow economy, dependence on the Soviet Union, etc
 - puts a soft (speculative?) concept, paternalism in the center of analysis
 - does not apply the first results of NIE
 - displays neutrality in the dilemma of free markets versus state intervention
- Critique of the shortage theory (Portes, Gomulka, Soós, Klaus, Shleifer/Vishny)
- It has not become a Grand Political Economy seen from the perspective of NIE, although the research program could be continued (e.g., the "Socialist System" by Kornai).
- The basic impression in the region: "the main questions have been answered"
- The West does not consider the theory of shortage mature for a Nobel Prize (orientalism?, becoming obsolete?, changing language of economics?).
- The return to universal economics ("prodigal son") takes place *not* in the field of the theory of communism.

Pioneers and followers

- Yugoslavia: the theory of self-management, standard microeconomics and the property rights school come together (Pejovich) and become a legitimate research program back in the 1970s (Dubravcic, Gligorov, Prasnikar, Suvakovic).

- In other countries, neoclassical analysis of the communist economy is sporadic (Czechoslovakia: Hlavacek, Klaus, Mlcoch, Toms, Triska, Magyarország: Galasi-Kertesi).
- Too little too late? In principle, NIE could have become the main research program of the younger generations who were frustrated with reform economics, and well-equipped with the tools of modern economic analysis.
- Aborted initiatives, unexploited possibilities (Grosfeld); research on post-communist transformation is more attractive and can be made with the help of OIE as well.
- Borderline-case economics: it has not been written yet; meanwhile in Eastern Europe communism dropped out even from economic history-writing.
- Kornai: *“I did not use the term ‘institution’ in every second paragraph as it recently has become fashionable to do, but I think I understood what a system means, and what the difference is between socialism and capitalism ... (1999)*
- How did NIE develop in the individual countries of Eastern Europe after 1989 when one could not really explain scientific evolution referring to isolation and censorship any longer
 - OIE withdrawing but no NIE breakthrough in sight
 - Neoclassical theory had a sweeping victory; it has not produced its own local dissidents yet who could find home in NIE.
 - Anything goes: even hybridization is a too strong assumption seeing the emerging blend of old and new paradigms/discourses in the region.
 - Bad joke: institutional economics has hardly been institutionalized yet.
 - Slow, eclectic, simulated takeover; small islands of NIE scattered all over the region; popularization and application rather than original discoveries.
- This contradicts even the pessimistic expectations; besides the “instinctive institutionalism“ of Eastern European economists, there were quite a few other reasons for predicting smooth and rapid reception.
 - Certain NIE subdisciplines can be understood with a low degree of mathematical knowledge.
 - One does not have to be a devoted neoliberal to subscribe to most NIE

theories.

- NIE may enchant the newcomer with its novelty and heterodox status.
 - It was well marketed throughout the region in the first half of the 1990s (foundations, conferences, book series, etc).
 - The first wave of reception coincided with many of the NIE Nobel Prizes
 - Post-communist transformation and the accession to the EU offered plenty of institutional research themes.
- It is first Alchian, Demsetz, Olson, Leibenstein, Simon who were among the most cited in Eastern Europe, then came Buchanan, Coase, North and Fogel; following a longer break, there was a new boom of interest due to the Ostrom/Williamson Nobel Prizes.
 - At the same time,
 - The basic works are often translated into the local languages at random.
 - The new mainstream economists in the region show suspicion toward the local NIE followers (is this the way in which these want to skip mastering the neoclassical instruments?).
 - There emerge strange mixes: (Romania: combining Hayek with Orthodox religion; Hungary: former party leader teaching public choice).
 - Maybe, NIE is in a phase of silent accumulation, and there is no reason for impatience.
 - NIE types in Eastern Europe:
 - Ex-reformers seeking refuge
 - Intransigent verbalists
 - ORDO rearguard
 - Pragmatic institutionalists
 - NIE neophytes
 - Symphatizers in other social sciences, etc
 - Top publications only by Russian scholars (Guriev, Sonin, Zhuravskaia)

The case of Hungary

- Unique solutions? Just a few specific traits in the reception of NIE:
 - Vast inertia of speculative institutionalism
 - ORDO is still taught at Catholic/German language universities, and ex-reformers also cherish its memory; the notion of social market economy appears on the extreme right, too.
 - The Austrian extension of ORDO is, however, not popular: neoliberal rhetoric à la Klaus or Balcerowicz is rare (the Polányi tradition is strong).
 - Kornai-effect: cautious/gradual reception mixed with own discoveries, critique of the "vulgar-Coaseists", simultaneous reception of OIE and NIE.
 - A new wave of reception at the turn of the millennium (Csontos' role), new translation projects, university courses.

Readings

Mandatory

Galasi és Kertesi: Korruptió és tulajdon, 1990

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

Kornai: Economics of Shortage, 1980 (chapters)

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

Additional

Domar: The Soviet Collective Farm, 1966

Kornai: A gondolat erejével , 2005 (chapters)

Kovács: Beyond the Basic Instinct? On the Reception of New Institutional Economics in Eastern Europe, 2011

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

Ward: The Firm in Illyria: Market Syndicalism, 1958

Annex

- Biographical sketches
 - Balcerowicz
 - Klaus
- Final questions
 - Predecessors/successors of the school
 - Friends and foes
 - Discoveries
 - Changes in the research program

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