

# INSTITUTIONAL ECONOMICS

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# INSTITUTIONAL ECONOMICS

## SYLLABUS

The course gives an insight in the history of institutionalist schools in economics. It focuses on the “institutional turn” that has taken place in modern economic thought during the past more than three decades. In this period, much of new institutional knowledge emerging outside the mainstream became part of the standard theory.

Although we devote most of the time to New Institutional Economics (including its prerequisites and reception), it is not our purpose to discuss the various “classes” of the school in great detail. This is the task of other Eltecon courses. Instead, new institutionalist theories are situated in the history of economic thought in order to understand why institutional concepts and interdisciplinary research programs tend to reappear in economics from time to time. Unlike similar courses, we also pay attention to Eastern Europe and the role other social sciences play in institutional research.

The course begins with a methodological introduction. First, it discusses the “old” schools of institutionalism and compares them with the “new” ones. Then, we will focus on New Institutional Economics presenting its main subdisciplines. Finally, the course will seek answers to the question why the reception of new institutional ideas has been so slow and eclectic in our region.

## **Course Outline**

### *1. On institutional thought in economics*

History of ideas or economics?

Misleading dichotomies

The trouble with classification

Becker and the NIE

## **Readings**

### **Mandatory**

Becker: Irrational Behavior and Economic Theory, 1962

Hutchison: Institutionalism Old and New, 1984

Furubotn and Richter: Institutions and Economic Theory. The Contribution of New Institutional Economics, 2000 (chapters)

Nee: The New Institutionalism in Economics and Sociology, 2005

Williamson: The New Institutional Economics. Taking Stock , Looking Ahead, 2000

Rutherford: Institutions in Economics. The Old and the New Institutionalism, 1994 (chapters)

Coase: The New Institutional Economics, 1998

### **Additional**

Furubotn and Richter (eds): The New Institutional Economics, 1991 (chapters)

Aoki: Toward a Comparative Institutional Analysis, 2001 (chapters)

Langlois : Economics as a Process, 1986 (chapters)

Hodgson: The Evolution of Institutional Economics, 2004 (chapters)

Chavance, Institutional Economics, 2008 (chapters)

## *2. Institutionalism: “old” and “new”*

NIE and OIE

NIE: a short summary

On the concept of institution

### **Readings**

#### **Mandatory**

Furubotn and Richter: Institutions and Economic Theory. The Contribution of New Institutional Economics, 2000 (chapters)

Nee: The New Institutionalism in Economics and Sociology, 2005

Williamson: The New Institutional Economics. Taking Stock , Looking Ahead, 2000

Joskow: Introduction to New Institutional Economics, 2008

Coase: The New Institutional Economics, 1998

North: Institutions, 1991

Coase, The Nature of the Firm, 1937

#### **Additional**

Furubotn and Richter (eds): The New Institutional Economics, 1991 (chapters)

Aoki: Toward a Comparative Institutional Analysis, 2001 (chapters)

Langlois : Economics as a Process, 1986 (chapters)

Hodgson: The Evolution of Institutional Economics, 2004 (chapters)

Chavance, Institutional Economics, 2008 (chapters)

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

Marx

Collectivist utopias

German Historical School

#### **Readings**

#### **Mandatory**

Marx: A Gotha 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)

Neurath: Through War Economy to Economy in Kind, 1919

#### 4. “Old“ Institutional Economics II.: The Austrian School and the “Methodenstreit”

Austrian School

The „battle of methods“ (*Methodenstreit*)

##### **Readings**

##### **Mandatory**

Mises: The Historical Setting of the Austrian School of Economics, 1984 (chapters)

Mäki: Universals and the Methodenstreit, 1997

Menger: Investigations into the Method of Social Sciences, 1985

Streissler and Weber: The Menger Tradition, 1973

Hayek: The Constitution of Liberty, 1960 (chapters)

##### **Additional**

Schumpeter: History of Economic Analysis, 1954 (chapters)

Hodgson: How Economics Forgot History, 2004 (chapters)

#### 5. “Old“ Institutional Economics III.: The “Socialist Calculation Debate” and the idea of social market economy

Socialist Calculation Debate

Ordo liberalism

##### **Readings**

##### **Mandatory**

Brutskus: Economic Planning in Soviet Russia, in: Hayek (1935)

Mises: *The Historical Setting of the Austrian School of Economics*, 1984

Hayek: *The Present State of the Debate*, in: *Collectivist Economic Planning*, 1935

Vanberg: *The Freiburg School: Walter Eucken and Ordoliberalism*, 2004

Peacock and Willgerodt (eds): *German Neoliberals and the Social Market Economy*, 1989

### **Additional**

Mises: *Economic Calculation in the Socialist Commonwealth*, in: Hayek (1935)

Lange: *On the Economic Theory of Socialism*, 1936/37

Eucken: *The Foundations of Economics*, 1950 (chapters)

Röpke: *The Economics of a Free Society*, 1962 (chapters)

## *6. "Old" Institutional Economics IV.: From the American institutionalist school to old-new "critical realism"*

American „old” institutionalists

- Veblen
- Hamilton
- Commons
- Mitchell

Borderline case I: Knight

Borderline case II: Keynes

Decline of “old” institutionalism

Galbraith

Toward critical realism

## **Readings**

### **Mandatory**

Veblen: *Why is Economics Not an Evolutionary Science?*, 1898

Commons: *Institutional Economics*, 1934, chapters

Knight: *Institutionalism and Empiricism in Economics*, 1952

Boulding: *A New Look at Institutionalism*, 1957

Rutheford: *Institutional Economics: Then and Now*, 2001

Polányi: *The Great Transformation* 1944, chapters

### **Additional**

Galbraith: *New Industrial State* 1969, chapters

Hodgson: *The Evolution of Institutional Economics*, 2004, chapters

## *7. "Old" Institutional Economics V.: Comparative Economic Systems*

On comparative research

Systems

Varieties of socialism

Varieties of capitalism

Varieties of capitalism in Eastern Europe



French regulation school

## **Readings**

### **Mandatory**

Hall and Soskice (eds): *Varieties of Capitalism*, 2001 (chapters)

Kornai: *A rendszerparadigma*, 1999

Bohle and Greskovits: *Neoliberalism, embedded neoliberalism and neocorporatism*, 2007

Szelenyi and King: *Post-Communist Economic Systems*, 2005

### **Additional**

Amable: *The Diversity of Modern Capitalism*, 2003 (chapters)

Gregory and Stuart: *Comparing Economic Systems in the Twenty-first Century*, 2004 (chapters)

Mesa-Lago and Beck (eds): *Comparative Socialist Systems*, 1975 (chapters)

Boyer: *Théorie de la régulation*, 2004 (chapters)

*8. New Institutional Economics I.: Property Rights (Transaction Costs) Economics. Law and Economics. New Political Economy. Governing the Commons. Mechanism Design*

Problem of choice

Property rights, transaction costs

New Political Economy

Law and Economics

„Governing the commons“

Mechanism design

### **Readings**

#### **Mandatory**

Coase: The Problem of Social Cost, 1960

Williamson: Markets and Hierarchies, 1975 (chapters)

Hurwicz: The Design of Mechanisms for Resource Allocation, 1973

Buchanan: Constitutional Economics, 1987

Ostrom: Governing the Commons, 1990 (chapters)

#### **Additional**

Becker: Crime and Punishment: An Economic Approach , 1968

Posner: The New Institutional Economics Meets Law and Economics, 1993

Coase: Coase on Posner on Coase, 1993

Williamson: Transaction Cost Economics Meets Posnerian Law and Economics, 1993

Mueller: Public Choice III, 2003 (chapters)

*9. New Institutional Economics II.: New Economic History. New Comparative Economic History and Economics*

History and economics

North

New Comparative Economic History

New Comparative Economics

## **Readings**

### **Mandatory**

Greif: Historical and Comparative Institutional Analysis, 1998

North: Institutions, Institutional Change and Economic Performance, 1990 (chapters)

Djankov et al: The New Comparative Economics, 2003

Acemoglu: Why Not a Political Coase Theorem?, 2003

### **Additional**

Diamond: Guns, Germs and Steel, 1997 (chapters)

Aoki: Toward a Comparative Institutional Analysis, 2001 (chapters)

North and Weingast: Constitutions and Commitment, 1989

Fogel: Time on the Cross, 1974 (chapters)

## *10. New Institutional Economics III.: Evolutionary Economics*

Key question

After Veblen

Routines as genes

Neighboring fields

Instead of a summary

## **Readings**

### **Mandatory**

Nelson and Winter: An Evolutionary Theory of Economic Change, 1982 (chapters)

Nelson: Recent evolutionary theorizing about economic change, 1995

Hodgson: Economics in the Shadows of Darwin and Marx, 2006

### **Additional**

Andersen: Evolutionary Economics: Post-Schumpeterian Contributions, 1996 (chapters)

Vincze: Evolúció és közgazdasági elmélet, 1993

Tesfatsion and Judd (eds): Handbook of Computational Economics II, 2006 (chapters)

### *11. Reception of institutional economics in Eastern Europe I.: institutional thought before reform economics*

A kind of institutionalism

Normative institutionalism

Mythical institutionalism

Theoretical opportunities of the reformers

An unexploited opportunity

### **Readings**

#### **Mandatory**

Bukharin and Preobrazhensky: ABC of Communism, 1918

A szocializmus politikai gazdaságtana (textbook), 1954 (chapters)

Kornai: A szocialista rendszer, 1993 (chapters)

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

### **Additional**

Kornai: *Anti-equilibrium*, 1971 (chapters)

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

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

Sutela: *Socialism, Planning and Optimality*, Helsinki 1984 (chapters)

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

Wiles: *Economic Institutions Compared*, 1977 (chapters)

## *12. Reception of institutional economics in Eastern Europe II.: speculative institutionalism in reform economics*

Reform economics

Reformers' speculative institutionalism

At the border of new institutional analysis

### **Readings**

#### **Mandatory**

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

Galasi and Kertesi: *Korrupció és tulajdon*, 1990

Grosfeld: *Reform Economics and Western Economic Theory*, 1992

Wiles: Economic Institutions Compared, 1977 (chapters)

Kornai: The Hungarian Reform Process, 1986

### **Additional**

Kornai: A hiány, 1981 (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)

### *13. Reception of institutional economics in Eastern Europe III.: acceptance and rejection of New Institutional Economics after 1989; the case of Hungary*

Borderline-case economics?

Theory of shortage

Pioneers and followers

The case of Hungary

### **Readings**

#### **Mandatory**

Galasi és Kertesi: Korruptió és tulajdon, 1990

Grosfeld: Reform Economics and Western Economic Theory, 1992

Kornai: A hiány, 1981 (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