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Petering Out Or Flaming Up? New Institutional Economics in East-Central Europe

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Petering out? Fading away? Does New Institutional Economics (NIE)¹ not offer a large set of scientific theories of great attraction? Were they not „doomed” to flood Eastern Europe that has been experimenting with deep-going institutional change during the past few decades? Did the research communities in the region prove to be unprepared to borrow new institutionalist ideas? Was Western success converted into Eastern failure? Did the proverbial curse of arriving too late hit the Eastern European economists again?²

Failure is probably too strong a word to use. I would replace it with habituation, even fatigue that may follow any successful breakthrough in scholarly exchange. Fatigue can result in stagnation but can also be provisional, giving rise to a new wave of reception soon, not to speak of original scientific discoveries.

A hasty prognosis

Why did I nonetheless expect a quickly widening institutional research program in the region back in 1993 when first reflecting upon the alternatives of evolution in economic sciences after communism? Then, I predicted a large-scale venture of importation accompanied by a rivalry of two Western paradigms (ORDO and NIE) for the hearts and the minds of Eastern European economists (Kovács 1993)³. Witnessing the popularity of the concept of *Soziale Marktwirtschaft* in political discourse after communism, and the proliferation of new institutionalist notions such as transaction costs, path dependence or social capital in the economic analysis of the transition to capitalism, I presumed to see an ongoing competition between old („German”) and new („American”) patterns⁴ of institutionalist thought in Eastern European economics. This open-ended scenario with two possible outcomes rested on the following four assumptions:

■ Both major schools of economic science under communism, i.e., official political economy (textbook Marxism) and reform economics (market socialism)⁵ will disappear: the former virtually collapsed before 1989 while the latter will merge with old and new institutionalist theories prevailing in the West. The merger may be facilitated by the fact that reform economics, including self-management programs, developed, almost instinctively, quasi-institutionalist (more exactly, speculative institutionalist) techniques of criticizing the planned economy as well as of engineering its reforms.⁶

■ The institutionalist explanations for severe market distortions in the planned economy such as shortages, sectoral imbalances, and investment cycles, which were put forward by the reform economists between the 1950s and 1980s, can easily be incorporated in the Western literature. Concepts like overcentralization, plan bargaining, regulation by campaign, paternalism and the shadow economy will find refuge in the (then) new theories of property rights, government failure, bargaining, political business cycles, etc. – of course, following major analytical enhancement.

■ Many of the reformers will turn into capitalist “transformers” studying the post-communist economy and designing large-scale deregulation (marketization and privatization) schemes. Hence, they will badly need reliable know-how for understanding and initiating institutional change.

■ A good part of that know-how is available in the West, the Big Unknown of scientific development is rather on the demand side. In leaving reformism behind, the Eastern European economists will face, by and large, two rival institutionalist traditions: an essentially verbal-historical one offered by “good old” ORDO liberalism, and a relatively new one based rather on neoclassical-style formal analysis (with increasingly sophisticated game-theoretical instruments) and offered by NIE. Which of the two will be their choice? To put it simply, the former relies on holistic concepts such as economic order, promises to solve real-life problems and stresses social responsibility and the need to correct the market from outside whereas the latter prefers

methodological individualism, and trusts the justice-making and self-correcting power of the market. The former is closer to the local intellectual and political traditions of the ex-reformers (and mathematically less demanding), offers an activist role to the scholars, and is justified, especially in the eyes of the older generations, by the European success story of the welfare state between the 1950s and the 1980s. The latter is widely seen as superior in terms of scientific precision and academic strength due to its intimate links to neoclassical economics, probably more attractive for the younger generations of economists in the region, and gains legitimation from the comparative advantages of the "American model" vis à vis most of the European ones during the 1980s and the 1990s. In sum, the former is assisted by a boring but reliable past that has been supported by theories of moderate sophistication whereas the latter represents the music of the future full of risks and perhaps of Grand Discoveries.

Shortly after 1989, I avoided guessing who the winner could be but expressed some fear from a combination of the old-new propensity of the transformers for state interventionism with resurgent nationalism in the region under the auspices of a statist-conservative-corporatist interpretation of the ORDO program. Thus, part of the latter's liberal constituents would be suppressed, and the ex-reformers (or even the textbook Marxists) would find refuge in the theoretical construct of a new type of social market economy flirting with a Third Way that is much more collectivist than the one advocated by Röpke – a nightmarish *National-Soziale Marktwirtschaft* somewhere between Mussolini and Meciar.⁷

Indeed, it was terribly difficult to forecast the winner (or to define the terms of an incidental – local – cohabitation between NIE and ORDO⁸) but it seemed evident that if there were a winner it would emerge from the rivalry of these two.

These expectations were contingent on a deep-going methodological and discursive change in the economic profession throughout the region. Any East-West convergence in institutionalism (even on the basis of ORDO liberalism) depended on a considerable rapprochement between the Western techniques/languages of economics and the local ones. To put it less politely, Eastern European economists could not hope, I believed, for success on the international scene if they continued to insist on their homegrown "quasi-institutionalism", or, more exactly, "speculative institutionalism" (think of the amorphous

"plan-and-market" and self-management discourses used by the reformers even in the late 1980s). Normally, this kind of institutionalist research program was less empirical and, at the same time, much less abstract-axiomatic than NIE. While it, like ORDO, feared formalism, its empirical strength was often dwarfed by that, too. Nevertheless, I presumed that learning might become a two-way street: economic sciences in the West would also borrow scientific ideas from our region. In revisiting its own economic institutions under communism, Eastern Europe seemed capable of enriching not only "old" institutional thought but also some of NIE's core concepts such as fuzzy property rights, informal institutions, incomplete contracts, rent seeking, etc. It seemed capable of delivering, via the economics of communism, an institutional theory of an unfeasible economy, which could play in economics a similar role to the one assumed by the *perpetuum mobile* in physics. As for post-communism, the region, I presumed, would be able to serve, in the course of the economic transformation, as a potential hotbed of institutionalist discoveries.

These expectations reflected a rather cooperative and frictionless scholarly exchange with the West. What we, Easterners want to come in will arrive, and what actually comes in is the same as what we originally intended to receive. Also, to use the language of political correctness, the institutionalist economists in the region were portrayed not as handicapped or disabled but as *differently abled* scholars who may have authentic products to sell.

Besides methodological adjustment and a "discursive turn", I argued, the sociological context of economic sciences might also change in Eastern Europe to promote convergence in institutionalist research programs. Presumably, party congresses, censored journals and politically embedded scholars will not determine scientific progress any longer. At the same time, "secular" (politics-free) research communities, peer-reviewed publications and the faculty library, or the faculty club for that matter, will become the main vehicle of scholarly evolution. Eastern European experts will be subjected to the same kind of rivalry in the academic market (locally and globally) as their Western colleagues, the patterns of recruitment, promotion and mobility will also be similar, a good part of scholarly output will come from private institutions of research and education, etc.

All in all, the cast was presumed to include two collective actors on the Western side, the representatives of ORDO and NIE, while on the Eastern one I saw the vanishing textbook Marxists, the ex-reformers as well as the "inno-

cent youth” appearing on the scene of economic research after 1989. It was also reasonable to assume that generational differences would matter. The younger you are, the greater your chances for receiving proper education in neoclassical economics – a *sine qua non* of absorbing new institutional ideas. Here, I thought, two kinds of frustration might coincide. Both the inexactitude of the verbal research techniques applied by the older colleagues, and the sterility of certain just-acquired neoclassical models can prompt young scholars to switch to NIE (without having to lower the level of formal analysis). While being pushed by these, they are pulled simultaneously by new institutional economics in the West, a fresh, flexible and fashionable discipline that promises the best of old institutionalism and the current mainstream without making the researcher suffer from their imperfections. The Eastern European economist was offered a unique chance of becoming an orthodox and heterodox expert at the same time who borrows and invents simultaneously, avoiding in this way the path of servile imitation.

If that prognosis is not flawed – so went my argument a few years later (Kovács 2002) –, the neoclassical paradigm needs to be included in the group of Western actors. Probably, the spread of this paradigm will also accelerate the diffusion of new institutional economics as an unintended by-product (or collateral damage). However, I disregarded three other options:

■ ORDO would smoothly withdraw from the competition but NIE would not become a real winner.

■ Neoclassical theory would not produce its own “Eastern dissidents” for quite some time, moreover, many of its local representatives would keep a low profile on NIE.

■ Under post-communism, the economic profession would face an “anything goes” (more exactly, an “any theory can melt into another”) situation, in which even hybridization might turn out to be a too courageous working hypothesis.

What was disregarded in the early 1990s, became reality, and a veritable astonishment to me 15 years later when diving into a comparative research project on the reception of New Institutional Economics in eight countries of East-Central Europe: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia and Slovenia.⁹

Rite de passage

„Have Polish economists noticed new institutionalism?” – asks Jacek Kochanowicz with a skeptical undertone in his case study. Roumen Avramov argues that „NIE’s presence in the Bulgarian landscape of economic science is still incoherent and lacks a critical mass. It can hardly be considered a compact current, able to counter the dominant influence of neoclassical economics.” Vojmir Franicevic speaks of „soft” institutionalism (i.e., using NIE concepts when they „fit the ‘story’ well”) and a passive reception of new institutional economics in Croatia. In Bulgaria there is only one consistent curriculum of new institutional economics. Horia Paul Terpe and Paul Dragos Aligica warn the reader that „signals that may indicate a ‘new institutionalist’ explosion should not be confused with the adoption of the real thing.” Institutionalism has not been institutionalized yet – quite a few authors play with the words.

In fact, expecting a series of original discoveries at the local level to be published by first-rate journals in the US would have been a vast exaggeration. However, infiltration at a snail’s pace, aborted takeover, eclectic borrowing, simulated appropriation, etc, i.e., patterns of scholarly importation revealed by our studies, would have been regarded as predictions of excessive pessimism one or two decades ago. Our research team presumed that NIE must have enchanted the economists throughout the region because it offered a paradigm they badly needed, could respect, understand and believe in, not to speak of the fact that the scholarly supply was well-marketed. A special advantage of the subdiscipline is, says Avramov, that it may serve as a „proxy theory” that can substitute other theories, fill „presumed gaps left by ‘conventional’ economic thinking”, thus, it can please even specialists of diametrically opposing persuasions. Although from time to time, NIE was packaged in radical/dogmatic libertarian rhetoric, it promised the local experts a large degree of elasticity: a balanced view of government *and* market failures, a historical approach to the evolution of institutions, multi-disciplinary analysis, etc, that is, scholarly cultures these experts were socialized in. They could expect that at last they would put in precise (yet, spectacular) scholarly terms what they had only speculated about earlier, and trust in the long-desired possibility of measuring the variables as well as testing the conclusions.

The encounters by local economists with new institutional theories (and theorists) in the West had first begun in Hungary, Poland and Yugoslavia back in the 1980s or a

little earlier. Initially, the demand was instinctive, sporadic, accidental and issue-dependent. Typically, the East-Central European economist was searching for a solution of a given problem (e.g., simulating private property in Hungary, comparing economic systems in Poland, and reshaping the federation in Yugoslavia); browsed through a few chapters of Western literature; and was enchanted by the discourse of the then emerging school. At that time Armen Alchian, Harold Demsetz, Mancur Olson were among the most cited thinkers. They were accompanied by scholars like Herbert Simon, Harvey Leibenstein, even Albert Hirschman who are seldom regarded as „founding fathers” of NIE today. Their arguments could be followed easily by means of mathematical skills attained in the study of the economics of planning and self-management before.

Indeed, NIE’s sporadic infiltration¹⁰ grew into a regular marketing campaign and a simultaneous buying boom in the late 1980s and the early 1990s. The campaign was operated mainly by North-American universities, think tanks and foundations (George Mason, Texas, Atlas, Fraser, Liberty Fund, Bradley, etc.) in all countries of the region, mediated by joint research projects, seminars, conferences, university courses, summer schools, translation programs and the like.¹¹ Its impact was reinforced by the first Nobel Prizes given to some of the representatives of new institutional thought (Buchanan, Coase, North, Fogel).¹² The overall climate of reception became especially favorable when the World Bank, the EBRD and some other international organizations replaced their Washington Consensus-style policies with the one using the „institutions/cultures matter” rhetoric.

The institutions-centered message from the West got considerably strengthened by the EU accession of a series of ex-communist states, that is, by the very program of a comprehensive transfer of institutions as well as by the *acquis communautaire* expressing a quintessence of European capitalism. Consequently, in the East-Central Europe of the mid-1990s, you could join the NIE universum with a middle-of-the-road social-democratic commitment, and you did not have to quit it even if you cherished arch-libertarian views. NIE is a tolerant discipline, note some of my colleagues.

A small scientific revolution was in the making – a change that was not forced upon the „natives” of the region. If new institutionalist ideas have begun to colonize them, then that was rather a sort of self-colonization. The local economists were prepared to leave the first stage of recep-

tion, that is, writing review articles and organizing introductory seminars, for launching their first real research projects to adapt and test foreign models of privatization, anti-trust regulation, corruption and the like. Our case studies contend that NIE got stuck in this introductory phase in many respects, in other words, the *rite de passage* was interrupted or slowed down considerably. To put it bluntly, new institutional ideas have not become part of the „spiritual capital” (Kovács 2010) of the East-Central European economists’ epistemic community.

Today, with the exception of a few tiny islands of NIE (such as the Department of Law and Economics at the Law Faculty of the Belgrade University or the Institute for Market Economics in Sofia), one sees lonely scholars scattered all over the region without any regularity. More exactly, there is a rule: no country shows extraordinary achievements in developing new institutional economics, no matter if the local economists encountered the West earlier or later. Apparently, stagnation has an egalitarian nature. As years go by, the inhabitants of the islands are happy if they survive somehow. They cannot hope for strongly affecting their own research environment soon. The typical NIE specialist in East-Central Europe continues to popularize his/her favorite authors and models, writes in domestic journals and, in the best case, applies already existing (Western) knowledge. (As a Romanian respondent complains, „we are the measurement guys at the end of the chain”). None of the case studies reports on an article published by a local expert of new institutionalism in a foreign journal of high reputation.¹³ University courses of new institutionalism do not offer a comprehensive picture of the school, instead they focus on a narrow selection of „famous” authors. In most countries, just a few classic volumes written by leading theorists of new institutionalism were translated. Renowned institutions such as the CERGE in Prague or the Institute of Economics in Budapest can still easily afford to operate without any permanent contribution by NIE scholars.

Rivalry

NIE versus ORDO? Contrary to my initial expectations, in East-Central Europe (just like in the West) new institutionalism does not compete with the old one but rather with the neoclassical paradigm. In other words, NIE has no noteworthy rival inside institutionalism as well as no strong ally outside. As mentioned above, American-type old institutional thought (ranging from Thorstein Veblen, through

John Commons and Wesley Mitchell all the way down to John Galbraith or even to Geoffrey Hodgson) has never been popular in the region. As a contrast, the German/Austrian tradition did influence the economists in East-Central Europe (less in Serbia and Bulgaria) before and even under communism, no matter how ambivalent that tradition may be.¹⁴ Today, however, ORDO liberalism appears, condensed in three sentences on *Soziale Marktwirtschaft*, above all in party programs. One finds in most countries Hayek societies, clubs, institutes but they are noisy rather than strong in scholarly production.¹⁵ The marginal role played by the libertarian wing of old institutionalism is evidenced by the example of some neo-Austrian economists in Romania who, believe it or not, flirt with the Orthodox religion. (Supposedly, this is not exactly what one may call „Hayekian orthodoxy“ in the history of economic thought.)

Why do I speak of a rivalry between NIE and mainstream neoclassical theory? Why is the latter reluctant to identify itself with new institutional thought in East-Central Europe? (More exactly, why is it perhaps more reluctant to do so here than in the West?) Mainstream scholars in both the West and the East contend that they have already identified themselves with NIE by incorporating many of its discoveries into the main body of neoclassical thought or its applied subdisciplines. In East-Central Europe they also claim that there are no significant scientific results produced by new institutional economists on both communism and post-communism to incorporate. Finally, they tend to discover some dark spots in the local genealogy of NIE after 1989. Providing easy refuge for former textbook Marxists and reform economists to survive, and offering a good pretext to avoid renewing their research techniques constitute two main reasons for suspicion. (As one of my interviewees, a neoclassical expert exclaimed, „when will ‘these’ learn at last to set up an equation!?”)

Proud eclecticism

Our case studies suggest that today, virtually any research program can couple with any other in East-Central European economic sciences. That was the third – probably most shocking – surprise to me in this project. Of course, as an alumnus, I feel extremely frustrated by the story of the former Karl Marx University of Economics (today, Corvinus University), which demonstrated, in the first years of the 21st century, a strange coalition of thoughts (and interests) between a very old professor of the history of eco-

nomic thought, an old expert of verbal-style international economics, a former party apparatchik in the Central Committee (currently he is professor of public choice) and a young specialist of micro-economics who has strong Marxist/anti-globalist views; a coalition cemented in an opposition to teaching modern neoclassical theories (Varadi 2007). Unfortunately, this is by no means an exotic example, just like the above-mentioned oxymoron of „Hayekian orthodoxy“ in Romania is not either. Another Romanian invention, namely, combining the German historical school, structuralism, nationalism, old-style development theory and new institutionalism, also gives birth to an interesting scientific creature. Concepts come and go, and the rate of fluctuation of the attitudes of their representatives is rather high. One of the Croatian respondents calls himself a „survivalist“, another one an „eclectic by default“. A Bulgarian interview partner says: „There is no inconvenience in declaring oneself a follower of one, and later of another theory. The wise man keeps under control the instruments and the concepts he utilizes.“

What is the reason for these „postmodern“ conditions? Did Western supply diminish? Did the wheels of the mediation mechanism start squeaking? Or did local demand ebb? I think all these factors were instrumental in the slowdown of reception. Obviously, the potential supply of NIE theories did not decline (just the opposite was the case) but the attraction stemming from the novelty of exchange of ideas definitely decreased. On the supply side, the scholarly interest shrank owing to a Western-style consolidation of economic research and education in Eastern Europe, which nonetheless did not result in breathtaking scientific discoveries. The „missionary“ stage of exporting new institutional ideas to the „savages“ was continued by a tedious process of piecemeal construction and legitimation of the subdiscipline at the turn of the century. The Western think tanks, foundations, specialists, etc., began to withdraw from the region, leaving the „converts“ behind.

On the demand side, new institutionalism did not lure neoclassical scholars out of their world of more abstract model-building. They were on an exciting learning curve, exploring the secrets of the „Grand Theory“ with its booming applications that, as mentioned before, have already included a number of NIE-type solutions. „If I use nice rhetorical twists like „path dependence“, do I learn anything tangible about the economy; will I be able to make better predictions?“, asked one of my interview partners, a macro-economist by profession. Furthermore,

what was an advantage in the eyes of the institutionalist experts, namely, the closeness of NIE to the politics of transformation, appeared to the „mainstreamers“ as a disadvantage. Witnessing how often the post-communist governments were improvising large-scale institutional change using primarily *old* institutionalist rhetoric did not help convince the neoclassical specialists to join forces. In the Czech Republic, for instance, the voucher privatization scheme based on allegedly Austrian evolutionary principles triggered sarcastic remarks from our respondents in the mainstream camp. Also, today they think twice before joining the „ghetto“ of new institutionalism after having been released from their own one called euphemistically „mathematical economics“ prior to 1989. Apparently, low-quality institutionalism is a weak challenge for the local mainstream specialists to change their mind. „Why should I love the Eastern European clone“, asked the same Hungarian respondent, „if my American colleagues are not delighted with the Western original“ of a certainly higher quality?

A happy exception?

Regarding Hungary, I can't help saying, in a telegraphic style, some words about the reception of New Institutional Economics in my country in order to dispel a widespread misunderstanding. In extrapolating the success of Hungarian economists in self-Westernization during the 1960s-1980s, benevolent observers tend to think of a *Sonderweg*, assuming tacitly that NIE must have had a green light to enter research and teaching in Hungary (Kovács 2002). Yet, as regards the expected Western breakthrough in institutional economics after 1989, Hungary has also belonged to the „laggards“ thus far. NIE did not invade the local research community, at the same time, ORDO did not disappear entirely. The latter is cultivated at small, conservative – Christian-oriented, including German-language – universities, typically, with no emphasis on Schumpeter and Hayek. The political parties in Hungary, no matter if they preach conservative, liberal or socialist values, have retained a diluted version of the Freiburg ideas in their programmatic documents since 1989. Sometimes they paint them green a little by using the term „eco-social“ or, on the right wing, squeeze them in the concept of „national market economy“ (or even „national and social market economy“ or „eco-social national economy“). To be sure, the „Austrian extension“ of ORDO did not entice even the liberals in my country. A faithful free-market rhetoric resembling that of Václav Klaus or Leszek

Balcerowicz has never been popular among Hungarian economists. Prior to 1989, the reformers spoke their deliberately non-ideological language with a slight social-liberal accent, and marginalized the only anarcho-liberal thinker among them, Tibor Liska. Also, a less pragmatic source, the Karl Polanyi legacy of doubting the virtues of the „self-regulating market“ was robust in economic sociology, and has proven such until now. Although the American sociologist and Hungarian expert, David Stark imported a few helpful evolutionary ideas, these lacked formalization as required by NIE.

Traditional Austrian economics had first been applied in the critique of Marx in the „Lukacs Kindergarten“ at the turn of the 1960s and 1970s. Following a more than a decade-long break, it enchanted only a few young experts at the end of the 1980s. Neo-Austrians have been basically unknown in Hungary until today. Hayek was easily defeated, before he could have won, by both the need for social engineering in the first phases of the post-communist transformation and the rapid inflow of neoclassical economics, in the mirror of which his ideas seemed ideological, imprecise and dysfunctional to many. Apart from a former finance minister, Lajos Bokros, there are only a handful of scholars who subscribe to quasi-libertarian views in economic science from time to time.

In the prevailing spirit of pragmatism inherited from the local version of market socialism, it was not only the neoliberal doctrines that proved unable to fascinate the institutional economists in Hungary but also any strong attempt at formalization. Speculative institutionalism has remained the main genre of economic research although speculation became less and less tantamount to analytic imprecision, shaky realism and normative thinking. Verbal methods, that is, a descriptive rather than analytic approach, conceptualization rather than measurement, case study writing rather than model-building, historical arguments, thinking in terms of Big Systems and Grand Designs, etc. still dominate the *oeuvre* of the institutionalist research community. The intellectual path of its members leads, simply put, from (Eastern) speculative to (Western) old institutionalism, and leaves the opportunity of switching from old to new institutional economics open.

The protracted and messy reception of NIE cannot be understood properly if one disregards another Hungarian specific, the immense authority of the role model of the economists' older generations, Janos Kornai. For a long time, he distanced himself from reform-making, superseded-

ed most of his colleagues in systematic description and formal analysis, and was keen on evolutionary change, yet failed to open up to accept Western institutionalist paradigms. This only happened rather late, in the early 1990s, and even then Kornai moved ahead in his own, proverbially cautious manner. He borrowed from both ORDO (e.g., comparative economic systems) and NIE (e.g., social trust), less instinctively than before, nonetheless, avoided subscribing to any of them wholeheartedly. What is more, at a certain point, he started mocking at the Eastern European “vulgar Coaseists”, saying: *„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 ...”* (Kornai 2000).

Despite the above obstacles, the debut of new institutional economics in Hungary of the 1980s was fairly promising. Individual essays or volumes by Anthony Downs, Ronald Coase, Albert Hirschman, Mancur Olson, Herbert Simon, George Stigler were already translated into Hungarian. A majority of the leading journals of modern institutional thought were available in the Budapest libraries. Thus, a good part of the early property rights and transaction cost theories (Alchian, Coase, Demsetz, Pejovich, Williamson, etc.) were known among some liberal-minded scholars (including radical reformers). As early as 1990, Peter Galasi and Gabor Kertesi published a pioneering work on corruption in the public sector, which was based on the Jensen-Meckling model. In the Rajk College of Advanced Studies of the Karl Marx University students and young professors jumped into studying a large variety of NIE-related issues, including then unorthodox ones (e.g., social networks, capital and trust). Many of them were enrolled later at Western universities.

During the early 1990s, a translator and editor of a number of Western institutionalists, Laszlo Csontos who had given a series of formal and informal seminars in Budapest over the 1980s, returned from Connecticut where he worked together with Richard Langlois, and started teaching at the Central European University. With the help of his rational-choice-based (methodology-prone) institutionalism, he not only multiplied the number of adherents to new-institutional fields of economics through teaching and research projects but also represented a multidisciplinary approach to NIE, thereby mobilizing sociologists and political scientists, too. New translations were published (Buchanan, Pejovich, Elster, etc) but the “triumphal march” ended shortly thereafter. The subdiscipline was frequented

by fellow-travellers and opportunists who blurred the boundaries between NIE on the one hand, and textbook Marxism, transformation studies as well as old-style Comparative Economic Systems on the other. They also preserved crucial teaching positions at the largest universities, determined the editorial policy of the main economics journal, *Közgazdasági Szemle*, and occupied the Hungarian section of the relevant international associations of new institutionalists.

Many of the young and middle-aged institutional-oriented talents turned (back) to “clean” neoclassical research, and/or preferred applied, empirical varieties of NIE (above all in labor economics, industrial organization and public policy) to the abstract ones. Alternatively, they left the country, weakening thereby the process of the subdiscipline’s self-organization and legitimation in Hungary. The translated volumes, however, did not cease to appear (North, Acemoglu, Rabin, etc.), not to speak of a new genre, the institutionalist textbook (Cooter-Ulen, Cullis-Jones, D.B. Johnson, Milgrom-Roberts, Stiglitz) or the neoclassical textbook with significant NIE chapters (Hirschleifer, Williamson). That genre reflects the spread of path-breaking university courses all over the country in new political economy, law and economics, behavioral economics, new economic history, economics of development, etc. This vibrant innovation in higher education (or on its margins) over the last decade, perhaps another Hungarian specific, has not reached the economic journals yet.

Flaming up?

By and large, the above said contain a pessimistic story. However, the word „yet” in the last sentence of the previous section refers to an optimistic one. Indeed, most of the case study authors contend that in East-Central Europe new institutional economics is in a state of silent accumulation. Its waning flame is gathering strength to burn soon. They refer to NIE specialists (predominantly young ones returning from the West) who have made huge efforts to have the standard works of the school published and to launch university courses that may result in a number of new experts and promising publications with some delay. They also call the readers’ attention to other social sciences such as sociology (Bulgaria, Hungary, Poland), law (Hungary, Serbia), political science (Croatia), psychology and history, which often apply new institutional concepts in their borderlands with economics. Frequently, new institutional arguments are used in scientific debates without referring

to their original sources. In other words, the case studies hint on an invisible proliferation of NIE in the academia and beyond. Public policy and corporate governance are highlighted in particular as fertile grounds for the diffusion of the philosophy of the school and for the mushrooming of NIE models ranging, for instance, from deregulation of public health care to devising the incentives of an intrapreneurship scheme. What did not work well in the academia, might do so in everyday economic life. Of course, the results vary: while new institutionalist concepts were successful in the pension reform, says Kochanowicz, they did not fare well in reshaping health care in Poland thus far. The Croatian case study reports on the success story of public finance.

A new push from the West may facilitate reception as well. Those who put their faith in a fresh start could not have imagined a better chance than a Nobel Prize given to Leonid Hurwicz, Elinor Ostrom and Oliver Williamson for research on mechanism design and economic governance, potentially the most vital themes in Eastern European economics today. All in all, the scholarly interest has not vanished, the attraction of the fresh NIE theories seems still fair, and the nascent capitalist regimes in the region lend themselves to institutional analysis no less than post-communist transformation did. Hence, one cannot exclude a new upsurge in the reception and creative application of new institutionalist ideas in the near future. What is lurking in the background in the form of reading the literature and making applied research projects today, may come to the fore and undergo a synthesis tomorrow.

Cultural encounters

The East-West encounters¹⁶ in new institutional economics display a great number of peculiar traits, that is, irregularities as compared to a simplistic scheme describing an exchange between two actors of different cultural assets and power positions as well as of a linear sequence leading to a final cultural compromise dominated by the stronger partner.

■ By and large, the place of encounters has become indifferent by now: the individual countries and subregions do not diverge in terms of the exchange of ideas concerned. If they nevertheless do, South-Eastern Europe does not lag behind East-Central Europe (e.g., Serbia and Croatia demonstrate a faster and deeper reception of NIE than the Czech Republic and Poland).

■ Time seems to affect the encounters primarily through the age of local actors, especially due to the fact that the adjustment process took new dimensions in 1989, and the new generations of economists have been socialized in Western-like (or Western) education and research institutions.

■ As for the time structure of encounters, the period of high-intensity (although rather superficial) exchange is followed by stagnation with a hope for a new upswing.

■ In many cases, cultural adjustment is a one-way street leading from the West to the East (it rests on imitation and recombination rather than local invention) but it has its own limits. In addition, at its Eastern end, the actors hardly learn from each other across the country lines.

■ The encounters are basically geared from the West by „remote control“ (i.e., the Western partner is present in his/her thought rather than physical self). Actually, this is a rather weak kind of instruction challenged by powerful local pressure in- an outside the academia. In addition, one sort of Western influence can be impeded by another one: the neoclassical mainstream both helps and hinders the reception of new institutional economics.

■ Both open resistance and dedicated emulation are rare, at the same time, eclectic and simulated adaptation is fairly frequent.

■ For the time being, the emerging compromise in institutionalist thought seems to be closer to the Eastern European point of departure, resulting in a kind of „updated“/“remixed“ old institutionalism. Yet, supported by the takeover of the neoclassical paradigm (a takeover characterized by overt emulation), the local NIE hybrids may „go West“ in the future.

■ The chance for a smooth evolution toward new institutionalism has not been exploited. The old epistemic community began to disintegrate but remained strong enough to prevent the consolidation of a new one. Its strategy was involuntarily assisted by the fading interest of NIE's Western core in Eastern Europe, and as a consequence, in the development of ideas in the region, and by the suspicion felt by the potential local ally, the new mainstream devotees toward institutionalism *per se*.

Detecting hybrids

Our case studies are far from offering a clear-cut typology of the emerging cultural compromises. It seems, however, certain that one cannot expect to arrive at an extremely asymmetric dual scheme, on the one side of which, we would see a few dedicated NIE specialists, while, on the other, a vast number of economists of neutral or even hostile persuasions. Instead, we saw a number of mixed types ranging from *refuge seekers* who “escape into” NIE from textbook Marxism or moderate reformism, through *intransigent verbalists* who arrived from the camp of radical reformers, *pragmatic institutionalists*, i.e., neoclassical experts ready to experiment with NIE concepts, and *neophytes* who maintain the local identity of NIE, all the way up to *potential synthesizers* who did not lose their ability to make verbal analysis but are also able to launch neoclassical-style institutional research projects.

The usual caveat applies: if filled up with names, such a typology would become even more complex. This would be all the more so if we applied any of the “muddling-through”, “improvization” or “bricolage” hypotheses, widespread in cultural theory, to the reception of new institutional economics in the region. Also, as alluded on the introductory pages of this paper, one can be persuaded to abandon any attempt at classification, reflecting a pessimistic view of the current state of economic sciences in Eastern Europe. Accordingly, the economic profession is confronted with a situation, in which practically any theory can melt into another without special difficulty. As one of our Bulgarian interviewees remarked, *„even the Ponzi schemes could be considered as ‘schools’.”*

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Endnotes

1By New Institutional Economics I mean a great variety of expanding research programs ranging from property rights and transaction costs theory, through public choice, all the way down to evolutionary economics. Owing to the fact that NIE is famous/notorious for a profound interpenetration of economics with other social sciences, interdisciplinary fields such as „new economic history”, law and economics, behavioral economics, etc were also regarded as organic parts of the school (see Hutchison 1984; Langlois 1986, 1989; Rutheford 1994; Coase 1998; Furubotn and Richter 2000; Williamson 2000; Hodgson 2001, 2004; Aoki 2001; Ménard and Shirley 2005; Nee 2005; Chavance 2008).

2The concepts of “East” and “West” will often be nuanced later in the text (see e.g., note 16).

3By ORDO I meant the Freiburg School and its intellectual *milieu* with their older and younger followers, without making a distinction between the less and more liberal authors as well as between theorists and politicians. Alfred Müller-Armack, Franz Böhm, Walter Eucken, Wilhelm Röpke and Alexander Rüstow were referred to just like some works of the secondary literature (see Watrin 1979; Zweig 1980; Peacock and Willgerodt 1989a, 1989b; Barry 1989; Johnson 1989. For more recent studies, see Sally 1996; Koslowski 1998; Vanberg 1998; Albert 2004).

4This simplistic dual typology was intended to reflect “public opinion” among economists in Eastern Europe at the time. In their discussions the alternative was presented with nonchalance to sharpen the contrast. For instance, the American type rarely included references to “old” American institutionalists (much of whose thought was directly imported from the *Historische Schule*) while in presenting the German one the importance of its Hayekian (libertarian, neo-Austrian, i.e., in a sense American) extension was underestimated. Important schools such as Comparative Economic Systems, the French regulation school or the theory of mechanism design would also not fit in well with such a dichotomy.

5At the time, one could hardly believe that a “pure” concept of market socialism cleaned from the dirt of real socialism, and reminiscent of the one used in the “socialist calculation debate” by Oskar Lange and his allies would not fade away from current economic thought (see Balcerowicz 1992; Bardhan and Roemer 1993).

6For speculative institutionalism, see Kovács 1992.

7Although this is a recurrent fear in liberal circles of Eastern Europe during the past two decades, reinforced by regime changes á la Milosevic and Tudjman, Lukashenka, Putin, the Kaczynskis and Orban, a coherent theory of new economic authoritarianism has not crystallized in the region ever since.

8Combining the two paradigms did not require a major scientific discovery; the pattern was set by the Hayekian (evolutionary) reinterpretation of the old Freiburg ideas. It could be safely assumed that evolutionary economics within NIE will not resist coope-

ration (see Schmidtchen 1984; Schüller 1987; Leipold 1988; Vanberg 2001; Pies 2001). See also the series *Konzepte der Gesellschaftstheorie* edited by Ingo Pies and Martin Leschke and published by Mohr (Siebeck) in Tübingen, in which they devote volumes to Buchanan, Coase, Hayek, North, Olson, Williamson, etc.

9The project was part of DIOSCURI, a large-scale FP7 research program (supported by the European Commission) on cultural encounters in the European economy (www.dioscuriproject.net). Unfortunately, we had to confine ourselves to making research in East-Central Europe, disregarding such important countries as Russia. I owe special thanks to Violetta Zentai with whom we run the program as a whole, as well as to Paul Dragos Aligica, Roumen Avramov, Vojmir Franicevic, Aleksandra Jovanovic, Jacek Kochanowicz, Alice Navratilova, Aleksander Stevanovic, Horia Paul Terpe and Tjasa Živko who prepared country studies on the reception of NIE. For more details, see the following chapters in our volume (Kovács and Zentai, 2012; Aligica and Terpe 2012; Avramov 2012; Franicevic 2012; Kochanowicz 2012; Kovács 2012).

The case studies focusing on the reception of NIE were based on altogether more than 50 in-depth interviews, literature reviews including books and articles in one or two leading economic journals of the respective countries, curricula analysis at selected local universities, and participant observation. Also, in each country economic think tanks and university departments were examined in similar ways, and much of the information collected in these fields proved to be relevant for research into new institutional ideas, too.

10The case studies suggest that the early reception of new institutional thought was contingent on particular events such as the publication of a volume on law and economics in Hungary, a fellowship received by Leszek Balcerowicz in Germany, or a visit paid by Svetozar Pejovich in Belgrade.

11A Hungarian scholar remembers: "In the fourth year at the university, some 'wild liberals' from the George Mason University, I mean, neo-Austrians, came to Budapest, and invited those whom they thought to become the new leaders of the country to the West-Coast where we ate a lot, admired America and attended lectures. ... It was clear that they are obsessed but they did not expect us to agree with them. They ranged from anarcho-liberalism, through the idea of free banking to the classical liberals, and distributed books free of charge. ... They were mobilizing Svetozar Pejovich because he had an Eastern-European appeal. This I liked very much. ... At that time, I was a hard-headed liberal but, as time passed, my opinion has got much softer."

12With the exception of a few ex-Yugoslav (one Bulgarian and one Hungarian) scholars, the local experts were not taught by a prominent Western representative of NIE. As a rule, they met second-rate members of the school (e.g., in the framework of training programs), and encountered the top scholars at international conferences or guest lectures delivered by them in the regi-

on. Douglass North was among the few "frequent-flyers" to Eastern Europe.

13A notable exception is a group of Russian scholars at the Higher School of Economics and the Russian School of Economics in Moscow. Among them Sergei Guriev, Viktor Polterovich, Vadim Radaev, Konstantin Sonin, Andrei Yakovlev, Ekaterina Zhuravskaja and others. Some of them have been publishing in journals such as *Econometrica*, *Journal of Economic Perspectives*, *American Economic Review*, *Quarterly Journal of Economics*, etc.

14As the Romanian example suggests, old institutionalism does not necessarily have to originate in ORDO. It may borrow from other types of interwar theories such as "economic structuralism" that was conserved in the works of Mihail Manoilescu and instrumentalized by the national communists in the 1970s and 1980s.

15Let me refer to the unease I still feel reading, more than twenty years after 1989, about the "triumph of neoliberalism" in Eastern Europe (see Bockmann and Eyal 2002; Aligica and Evans 2009; Kovács 1991, 1998, 1999).

16The cold war concepts of "East" and "West" apply to the turbulent world of Eastern European economics less and less. Today, many of the Western professors, co-authors and project partners can also be encountered in the capitals of Eastern Europe (e.g., as an employee of CASE in Warsaw or of the CEU in Budapest). To complicate the issue, the Western professor can actually be a repatriate or an Easterner who was educated in the West. There he/she may have been taught by an Easterner, or, vice versa. Moreover, the professor may be a Pole teaching a Czech student at a Moscow University. An example from our field: as Avramov reports, a Russian NIE textbook was also used at the Sofia University.

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