

## 1. INTRODUCTION: WHY EUROPEAN POLITICAL ECONOMY IN AN AMERICANIZED DISCIPLINE?<sup>1</sup>

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The evolution of economic science has taken a resolute turn since the late seventies. This is reflected, *inter alia*, in the unprecedented geographical concentration of Nobel Prizes in Economics, having been awarded in about *95 per cent to scholars* who have spent all, or at least most, of their productive years in the *United States of America*.<sup>2</sup> This cannot be taken as historically given, neither as a consequence of the enhanced financing and technological conditions of research, economies of scale and scope, which is the case in the natural sciences.

One of the most influential authors, Alan Blinder/1999/, also highlights the growing Americanization and equates it with professionalization. For him this is a synonym for the extensive – or perhaps often exclusive – use of econometric and mathematical techniques, which are considered as *sine qua non* features of scientific analysis. The quality of its mastery is, at least in the mainstream fora, decisive over its publishability, respectability and indeed its seriousness. In terms of language, sophistication, presentation and even issue areas it has demonstrably narrowed the field in geographical terms. This can not be overshadowed by the increasing presence of authors of previously less appreciated background, such as Chinese, Spanish Indian or Greek origin, as those tend to work, or be organically integrated to, the research networks of the big US schools.

Others, most notably in his broad summary of mathematical economics, József Móczár /2008: 18-24, 286/, attribute this development to the economies of scale and scope of the academic market in the United States, which reflects the generally competitive economic arrangements of the country. While we shall try to get into

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<sup>1</sup> I have particularly benefited from our discussions with J.Móczár in mutually criticizing our respective monographs, without necessarily reaching a consensus, still re-establishing the often missing intellectual interchange between certain representatives of mathematical economics/his field/ and of neo-institutionalist approaches/mine/.

<sup>2</sup> Nobel Prizes, either in economics, literature, peace building or the natural sciences, certainly never constitute an undisputable standard, the final say of history. Still less in economics, an area in search of its identity and thus riddled with intellectual intolerance and animosities. Relying on a series of formal and independent appreciation of an impartial body may help us finding impartiality and thus to strike a balance among competing- often mutually exclusive- interpretations.

the nitty-gritty of both sweeping claims, it still remains *puzzling*, that of a total disciplinary history of around 250 years, the past ten per cent of the track should have produced such *all-encompassing change* in terms of geography, genre, focus, interest, methodology and the potential circle of authors who may aspire to be taken seriously and recognized as school molding personalities.

This book, in its *first part*, is an attempt to provide at least a partial and preliminary answer to this first puzzle. It also tries to address and remedy some of the ramifications of this development in terms of subject matter, methodology, social relevance as well as applicability.

### *Reasons for a Copernican Change*

One of the side effects of this all-encompassing change is the uncontested rule of English as *the singular means of communication and academic interchange*. Thereby Anglo/American publishers, journals and universities have taken the lead, not only in terms of setting the standards, but also in shaping tastes, values, approaches and even the choice of subject matter. A mere glimpse into the flagships of the economics profession, such as the *American Economic Review*, the *Quarterly Journal of Economics* or the *Journal of Political Economy*, may convince anybody in doubt about the validity of our claim<sup>3</sup>. It is particularly obvious, that empirical issues, which may be relevant or fashionable in the US economy and society – be that gender, race, local elections, China or the sub-prime crisis – stand a disproportionately better chance to obtain space and attention, than other, *per se* equally interesting and important topics, which may

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<sup>3</sup> Tellingly, the German quality business paper, *Handelsblatt*, in its July 2008 ranking of institutions and individuals, relies on the lists of the Tinbergen Institute in Holland and adds to it the contributions to the *Journal of the European Economic Association*. One may wonder why the editors opted for the TI against the previously used similar list made by the Kiel Institute of World Economics. This choice was never explained, although it clearly influences outcomes. While we share the editors' enthusiasm for the influential colleagues editing the *JEEA*, tellingly published by the MIT Press in the USA, we must note, that this journal is currently merely in its sixth volume. For this reason it has yet to prove if it will join, say the *Quarterly Journal of Economics*, or other leading academic forums, in carrying the most frequently cited articles in the profession. Likewise we still have to see, if it will graduate to publishing the printed version of Nobel Lectures, let alone carrying any of the papers that deserve – usually with a delay of three to five decades – this decoration. Incidentally, all the three most recent Nobel lectures were printed in *The American Economic Review* /vol.98. no.3, May 2008/. The alternative could have been *The Journal of Political Economy*, currently in its 116th volume. In short, the option chosen by a major opinion molder as a point of orientation for employers is a rather arbitrary option, disregarding the minimum of scientometric professionalism. Since selection criteria to a large degree predetermine the outcomes, this is not an innocent error – more funding generally follows the rankings /as in many bureaucratic procedures including competitive bidding at governmental and international agencies as well as foundations/. For a similar assessment of the ever more fashionable ranking of universities with a science appeal, see the critical assessment of Ádám Török/2006/.

matter more for other sections of the globe, but are less interesting for Americans. The latter include a number of traditional issues in European studies, such as the history, development and the intricacies of the operation of the single currency without a political union, or the still troubled lot of the economies that have /re/emerged from the doldrums of Communism.

Insightful analyses /Simonovits 2007/ have called attention to the very large dose of subjectivity and open favoritism in the selection process of the most highly esteemed journals of the economics profession. But even more broadly, other sources on the uses and misuses of scientometrics warns us about the limitations of the quantitative methods currently in vogue in evaluating scientific achievements.

The role of prejudice and other components usually considered to be outside the scope of academic inquiry, is shown to be at work even in such seemingly policy neutral areas – or value free fields, if you wish – as medicine or regional studies /Braun ed. 2007/. As the papers in the volume show, the most sophisticated Hirsch indices of several Hungarian physicists for example considerably exceed of those decorated with a Nobel Prize. The same is the case in medicine. Self-references as well as foregoing the allocation of partial weights to multi-author pieces /currently ubiquitous in the natural sciences/ result in inflated impact assessments and non-comparability across disciplines and time periods. As the authors warn, and not only on the base of the above cited extreme examples, one should be circumspect in making use of quantitative indicators and even positively suspicious of the proliferating listing of schools and individuals, even though allegedly entirely merit-based.<sup>4</sup> Therefore it might make sense to investigate components of merit, of trying to return to the *classical standards*, also in use across the natural sciences. This entails such merits as originality, lasting value and lasting citation<sup>5</sup>, in short to peer assessment, which is perhaps more complex but more reliable than the currently fashionable rankings.

Our endeavor should thus cover both fields and methods of the economics discipline, as well as outcomes of analyses, in the broad sense. As a *second* puzzle, we shall address at least some of above

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<sup>4</sup> These listings are by no means innocent. They orientate good students as well as research funding in a number of areas, just because of their science appeal.

<sup>5</sup> Contrary to frequent journalistic claims, citation, in a sufficiently long period of time, does *not* follow fashions and personal relations, if for no other reasons, because of the changing nature of both. Thus while it is a true observation, that extreme positions arouse considerable interest and reflection, still those ebb out with the inevitable marginalization of the extremist position.

concerns, and show why and how it matters to economics, in terms of research area and academic performance assessment alike. Both have undergone Copernican changes without having been preceded by broad and consensual understanding, as was the case in arts or natural sciences.

A *third* factor of concern might be the increasing drift between the self-interpretation of the guild of academic economists, increasingly under the control of technicist orthodoxy, on the one hand, and the challenges of social, political and market expectations on the other. E. Roy Weintraub /2002/ of Duke University has gone perhaps the farthest in describing the mathematicization of economics, which has become established practice everywhere over the past quarter of the millennium and which means much more than the instrumental use of mathematical, statistical and econometric techniques of various sorts. What he criticizes is the tendency to take mathematics *as an independent structure*, determining the questions and thus the answers as well for the entire profession. For this reason, while the co-evolution of academic economics and at least some trends in mathematics is rather straightforward, the relation to any of the many *real world issues* has become rather *coincidental*<sup>6</sup>. True, this co-evolution has rarely included feedbacks from economics to mathematics, with the potential exception of financial economics in general and risk assessment in particular.

Alan Blinder /op cit/ is quite straightforward in claiming, that economics of the past two decades has produced relatively little of what he terms '*useful knowledge*'. Being a practitioner – as former member of the Council of Economic Advisors and also active member of the governing board of the FED – and also a prolific writer on policy relevant issues of various sorts, he might be particularly well placed to make this comment. In the view of several representatives of the mainstream, such as Gary Becker and Robert Solow, to be cited in the next chapter, economics has entirely lost its separate subject matter, and has evolved into methodology, more precisely *a specific brand of modeling*. Advances that have been made in the area of quantitative analyses, modeling and forecasting have, notwithstanding the frequent claims to the contrary, contributed little to the management and efficient solution of various *societal*,

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<sup>6</sup> According to József Móczár /2008: 233/: "Economic historians have offered a multitude of proofs that by nowadays there emerged such an abstract version of academic economics, which bears no relation whatsoever to empirically observable facts of the economy, but meanwhile it has become unintelligible in its twists and turns in mathematics". In a way, his entire monograph may be taken as supportive of this quote.

*corporate, financial, environmental and redistributory* problems. The latter have been multiplying over the past few decades, rather than fading away as the naive modernization theories of the 1950s and 1960s would have had it in east and west alike. The cumulative unresolved challenges have been calling for novel solutions for such traditional economic issues as the *financial* tremors, the stagnation of the universalist European *welfare state*, global *poverty*, the *resource curse*, the spread of macroeconomic populism and its ramifications or the stagnation of *European integration* at the time of globalization and the information and communications technology revolution /ICT/.

*Fourth*, as an interesting, though by no means unforeseeable consequence of the standardization, over-technicization and Americanization of economics education, also at the Ph.D level, is that a certain mismatch has emerged between the *aspirations* and abilities of successful postgraduates on the one hand and *the needs and priorities of the labor market* on the other. Persons coming from the top schools have difficulties in being integrated in their local academic and societal environment, which is a phenomenon not constrained to transformed societies. Analyzing this issue through a series of methods including surveys of the graduates, David Colander /2008/ has found that the internal evolution of Ph.D training has created a *mismatch* by eroding some of the traditional pluses of the traditionally much *broader European approach to postgraduate education*, while disregarding some of the rather fundamental *differences in the institutional setup* of European and American labor markets, academic and non-academic alike.

#### *Applications of the Americanized Theory In and On Europe*

*Fifth*, although in Central Europe accession to the European Union has contributed to solving some major problems that have been bequeathed by the cold war and the collapse of the Soviet Empire, it has clearly fallen short of triggering that series of structural reforms, which could have laid the foundations for lasting *financial solidity* and *sustainable development* in the broad sense i.e. more than mere quantitative growth. At the time of writing it seems that both major development issues have remained unattended as yet<sup>7</sup>.

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<sup>7</sup> In our analysis we shall abstract from the trends that have evolved in the New Independent States, as these seem to fit better to developmental studies. On their core, Russia, a recent survey by Anders Aslund /2008/, might serve as a point of reference.

*Sixth*, the European Union itself has been emerging, even though quite slowly, from its self-created political and institutional stagnation. The latter has evolved with the derailment of the project of political deepening launched at the Constitutional Convention of Laeken back in 2003. With its relatively smooth ratification in 23 out of 27 member states by September 2008 the overall paralysis and the climate of deep mutual distrust seems to be over. The Irish veto of the Reform Treaty in June 2008 somewhat slowed this process but by no means reversed it - a claim we shall substantiate in a separate chapter. **As a result, the review of the current financial perspective in 2009 and the following elaboration of the 2014-2020 financial perspective, whose preliminaries are already well underway both in Brussels and the national capitals, allows for rather deep-going modifications to materialize.** This new opportunity can be seen as the carrot while the challenges emanating from globalization in general and the conclusion of the Doha developmental round in the WTO in particular, will create the much needed stick /Sally 2008/. The interaction of the two is likely to *galvanize changes* and thus help to *institute some of the overdue reforms, rethink enlargement as well as alternative neighborhood policy options*. The need to remain active in Turkey, the western Balkans, Ukraine and the new independent states, as well as in the Mediterranean remains a top priority for the EU and its common foreign, security, trade and financial policy. Formation of the Euro-Mediterranean Union in July 2008 is a clear indication of the centrality of these issues for strategy and policy-making alike.

As the fifth and sixth issue areas to a large extent overlap, it might be legitimate and even necessary for us to devote some time and space, as a *seventh issue area*, for covering the *common ground*. Was the process of eastward enlargement delayed or rather premature, and has it been, on balance, a success or a failure? What should we think, with the benefit of hindsight, about 'transition strategies' that have culminated in EU accession in some cases, but led to being left out in the cold in others? How efficient social engineering – materializing in constitutional development and leveraged institution building during the accession process – has been in terms of transplanting and internalizing EU values and procedures in postcommunist societies?

#### *Do New Theories Emerge from Applications?*

Finally, as *eighth*, the question arises whether we can draw any more *general theoretical lessons* from the diverse regional experiences in

Central and Eastern Europe over the past two decades for broader global economic analysis. Such lessons might, *inter alia*, relate to the roles of public policy, path dependency, the role of *spontaneity versus constructed* projects/policy plans, the role of *social acceptance* of economic concepts, the pluses and minuses of institutional *shortcuts* or the role of fiscal responsibility in bringing about lasting growth and development in historically backward or medium developed economies.

Even the mere listing of our eight major puzzles and possible angles of analysis should make it clear that this is not /even meant to be/ a conventional economics book, confined to refinement of technical analyses. Its scope and approach, while firmly anchored in the standard economic paradigm, overstretches pure economic approaches and complements these with a series of insights from the natural and social sciences. We aim to *endogenize public choices, institutions, policy options and social feedback*, in line with decades-old traditions in new political economy and the political economy of policy reforms<sup>8</sup>. We thus join the *institutionally informed standard economic analyses* and apply these to a variety of *European topics, European perspectives and European concerns*. We hope to contribute, even if modestly, to the ongoing *change in emphasis in the global economics profession*. Meanwhile we also wish to remain relevant to students of sociology, political science, international relations and even to analysts working for the business community. This position is in line with the traditions of European economic thinking, from Adam Smith through John Maynard Keynes, Friedrich August von Hayek, Walter Eucken and János Kornai.

When discussing systemic change, both in the „postcommunist” context and in the analysis of the EU, we enter into the field of new *political economy*, where political processes, institutions and public choices in the broadest possible sense are being *endogenized*. As we stick to the standard economic paradigm and its means of analysis, we do not join the research project of those /Chang 2002/ who interpret the inclusion of institutional analysis as an *alternative, rather than a complement* to modern economic approaches. Their line of thought constitute, at the end of the day, a return of pre-modern approaches such as the German historical school, where the economy

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<sup>8</sup> Certainly, comparative economic systems’ research, the Austrian school and German institutionalism, especially *Ordnungstheorie*, much of it originating in the 1890s and revived by the 1920s and 1930s debates on socialist calculation and the study of state managed economies count among the intellectual roots of this line of thought.

was seen as a mere *subsection* of a much broader superstructure, dominated by culture and power considerations as well as morals and geographic factors. By contrast, we join the current academic majority in treating the economy as a *subject on its own right*, following the logic of its own, thus being liable to analytical investigations by means developed over the past 150 years or so. Thus while being distinct to the 'institutional void' of technicist orthodoxy, we also reject – on theoretical and methodological grounds to be elaborated in the next chapter – any reintegration attempts of the competing 'old institutionalist' streams, including the culturalist school, strongly present in the area studies and international relations literature.

Our study of institutions follows the mainstream economic logic and aims at *creating a productive feedback to it*, rather than at undermining or fundamentally revising its basic insights. These usually reflect broad and generalizable considerations that are formulated at a much higher level of abstraction.<sup>9</sup> They represent the *common thread* over and above the individual observation /case study level, overcoming coincidental and other ad-hoc factors. What we hope to provide by the current analysis is two sorts of insights: a./ *policy applications* on particular fields that normally lay outside the focus of mainstream analysis; and b./ *generalizable insights* that may verify or falsify theoretical claims that were established in the mainstream literature. Both endeavors may prove productive and open-ended. Time will tell, whether a Kuhnian *paradigm shift*, or a mere – rather conventional – *incremental change*, which incorporates institutionally and historically informed approaches in the mainstream, will take place in the coming decades. What seems to be beyond doubt is that neither a return to story-telling narratives in the name of cultural and historical peculiarities, nor a timeless, rigid, mechanic frame void of history, institutions and human beings, nor a disregard of advances in the natural sciences, in quest for methodological rigor developed particularly by the new classical and new Keynesian schools, is sustainable and productive<sup>10</sup> in the long run.

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<sup>9</sup> This is the well known argument of Oliver Williamson/2000/ explaining that institutions act *more* at a different level of abstraction and analysis than the study of elementary facts, the focus of neoclassical analysis. This differentiation was well known in Hungarian economics of the interwar period, and formed a backbone of the economic concept of the leading academic economist of the time, Ákos Navratil/1927/2008, p.214/.

<sup>10</sup> Productive in this sense means the same as in the natural sciences, i.e coming to previously not known /original/ insights, finding new methods and being able to test those empirically. Moreover in a best case scenario the entire exercise yields results that help to improve practical problems, in our case

For us the eight major issue areas seem to form an *integrated topic* with mutual interrelationships and mutually reinforcing consequences. However, we also accept that their diversity does not yet allow forming a tight structure that would be required of a proper conventional monograph. While every effort is made to ensure the dovetailing of various chapters, this attempt, by necessity, can only be partial. Some chapters are, due to the complexity of the subject, somewhat longer than others, which would be inadmissible even in a graduate level textbook. This is reflected in retaining the word *Studies* in the title. In turn, most of the individual chapters might well be read and used separately, also for reading lists for various graduate level and Ph.D courses. On occasions the digressions are mostly confined to the numerous footnotes, which reflect the controversies of fine print, as well as complementary, rather than fundamental pieces of information. These can be omitted, at least in the first overall reading to capture the *major line of the argument*. Also, with the passage of time, while using the text in classroom, current commentary and most recent statistics can complement the arguments introduced in the main body of the text.

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of economic nature, yielding a better quality life for individuals, communities and humankind in a sustainable fashion.

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