

# Economics, and economists, in transition

*László Csaba,<sup>1</sup> who chaired the Committee on Economics in the Hungarian Academy of Sciences from 2002 to 2008, explains the recent changes in economics education and the role of economists in the transition economies of central and eastern Europe.*

This short essay may be an attempt at the impossible. We try to show how the historic transformations of the past decades have reshaped the content of economics, role and functions of economists in central and eastern Europe, as exemplified by Hungary.

## The early legacy

Hungary has had a long tradition of high quality training and research in economics dating back to the interwar period. The three leading personalities of the era were Farkas Heller, a representative of the Austrian school, Theo Surányi-Unger, a representative of the German historical school and the ensuing idealism, and Ákos Navratil, an adherent of the English classical school. Though closely following contemporary international debates, however, they were best at delivering state of art knowledge to their students, rather than contributing to the mainstream of the day. In consequence, several of their former students later gained international reputations. They include Lord Thomas Balogh of Oxford, William John Fellner of Yale, later Chair of the Council of Economic Advisers under President Nixon, Tibor Scitovsky of Berkeley and the OECD, Lord Peter Thomas Bauer of LSE and Béla Balassa of Johns Hopkins/The World Bank. Introduction of currency controls in 1930 and the subsequent proliferation of interventionism has created a fertile soil for debating, whether those changes were meant to be transitory, or whether they marked the advent of a new era of a state managed economy. Academic economists of all the three major schools were sceptical of this trend on economic and political grounds.

In the 1945-48 period, economic reconstruction and a mixed economy run by a predominantly non-Communist government — the single one in the region — allowed for testing many of the earlier propositions. Political changes, as well as the emulation of contemporary French and British experience of nationalizations strengthened the positions of those advocating more state controls as part and parcel of orthodox policy, rather than a temporary expedient, as was the case after World War One.

The Communist takeover of 1948 created irreparable damage and discontinuity by purging each and every person of professional standing, quite irrespective of their previous involvement or non-involvement in the conduct of politics. The newly created Karl Marx University of Economic Sciences and the fundamentally altered Academy of Sciences were meant to contribute to ‘hammering out the new type of man’, and to serve the imminent needs of the planned economy, in political and technical senses alike. It entailed copying Soviet textbooks and reducing economics to the servant of Marxist ideology and Party politics. Teaching and curricula, previously aligned with conventional western standards, were reorganized accordingly.

## The communist takeover

In the interwar period teaching was elitist and of exceptionally high quality. Its two strongholds were the Regent József Technological University and the Pázmány University of Sciences with its highly-regarded law faculty. Provincial universities, usually old establishments re-settled from the territories lost to Romania and Czechoslovakia, also tended to offer high quality economics education as part of the curricula in their faculties of law. By contrast in 1948 the newly established Karl Marx University of Economics was a specialized institution, not just one faculty in a multidisciplinary academic environment. Its mission and style was strongly anti-elitist (meaning the extinction of the prewar old guard), and its fast and widescale replacement by the new rulers, the *nomenklatura*. Its new professorial corps retained hardly any of the old guard, but was filled with ideologically committed, but professionally poorly trained, people.

The disenchanted former Marxist had an important share in triggering the 1956 revolution, when the Soviet imposed regime collapsed in a mere 12 hours, despite the presence of occupying troops. While the latter restored the old regime within a fortnight, immediate repression was soon followed by gradual liberalization, later known as ‘goulash Communism’. The latter covered intellectual life and the private sphere, retail trade and foreign travel (from 1964 on) as well as freeing political prisoners

beginning in 1961. In the economy a process of continuous experimentation and reforms became the rule. It started in December 1956 with the setting up of the Economic Reform Commission under the avowedly non-Marxian Professor István Varga. Its proposals were, finally, introduced with a delay of a decade, and became known as the New Economic Mechanism, the one sole serious market socialist experiment in the Soviet Bloc. This was complemented by the liberalization of small business (in 1982, immediately upon the imposition of martial law in Poland) and the delegation of power to corporate managers in 1985, paving the way for the largely spontaneous privatization of the 1987-90 period, marking the transition to a market. Throughout the whole 1957-90 period economic policies were based on trial and error (Berend, 1988). In this period, being an economist, self-trained or professional, implied high standing, good salary and social influence, and offered the chance to change the system from within.

As a consequence Hungarian economics in 1948-90 developed two distinctive features. Firstly, it gradually liberated itself from the tyranny of Marxism and Party dogma, and could discuss in a pragmatic and open fashion all important issues save property rights. This was a major difference to, and a source of comparative professional edge over, the practices of other Communist countries (Wagener, 1998). Secondly, it became very different from the simultaneously emerging western mainstream. This had to do with its very different subject matter and methods of analysis, as well as the very different ambitions and objectives. Briefly, it has been rather empirical and pragmatic — consciously avoiding drawing the broader, potentially theoretical, implications of its findings. By contrast, there was a strong abstract trend present. Sure, contemporary Hungarian mathematical economics has never been inspired by neoclassical or neokeynesian ideas. Its major contributions related to macroeconomic planning and the formalization of the Marxian labor theory of value. But this was a small church. Contemporary Hungarian mainstream — meaning the vast majority of contributions to the literature, books and journal articles alike, tended to be focused on a variety of empirical investigations, of firms and sectors. It also focused on the implications and limitations to the workings of the indirectly planned market economy and it searched for opportunities for reform. But here again, the limitations set by one party rule, the dogma of state property and of being part of the Soviet command trading bloc, Comecon, put severe limitations on how far pro-market ideas could reach out.

### Living with the enemy

Notwithstanding the ideological straitjacket, experimentation, especially in foreign trade and finance, have clearly shown the limited prospects for improvements as long as taboos were taken seriously. For this reason the pronounced empiricism in many of the contributions, from

the late 60s at least, were often just thinly veiled attempts to avoid and undermine those dogmas, be it the superiority of public property, the advantages of trading within the East Bloc rather than with the west, or the alleged superiority of a centrally managed price and credit system. The liberation of small business, which started in the late sixties and expanded in the early eighties robbed the ideological claims of their credibility. The man in the street could see for himself that items that used to be in short supply for decades could now be easily purchased from various private ventures. Prices could not be kept stable. Jobs were lost with increasing frequency. Remaining faithful to the Party line did not necessarily translate into material gain or steeper career lines. Travels in the west made millions of citizens aware of the expanding gulf between east and west in terms of living standards and freedoms alike, quite contrary to the ongoing ideological posturing about the advantages of socialism. Sociologically based analyses of new forms of entrepreneurship, as well as of the irregular economy provided useful critiques of contemporary developments. The study of poverty, inequalities and delinquency also figured high on the agenda. Developing new models of market socialism with increasingly competitive solutions, has also been significant, even if geopolitical change has turned much of the second best options irrelevant.

However, in the meantime, reforms of the banking system, of enterprise management, of foreign trade have all brought about a demand for people broadly trained in what was the contemporary mainstream. For this reason, improvement of economic understanding has been much quicker and broader than enrolment numbers or university curricula would suggest. On-the-job learning, or foreign training courses for leading personnel have become a regular feature in the business community, and increasingly also in public administration/especially in terms of law and finance.

### Throwing off the straitjacket

Unsurprisingly therefore when the 'negotiated revolution' of 1989 took place, Copernican turns in economic education also followed. At the leading Corvinus University the switchover to standard western macro- and microeconomics was launched already back in 1986 as part of reforming the curriculum. This shift was made possible, even encouraged, by the professionalization of much of teaching in such areas as finance, international trade, industrial organization and mathematical economics, all presupposing a fair degree of familiarity with standard concepts. Furthermore, from 1989 on, a tenfold expansion of student numbers took place, with a heavy emphasis on business, finance and trade-related, applied knowledge. Strangely enough, the traditional continental division between colleges, training for business, and university education, training for academic and analytical careers tended to wither away, with the EU inspired Bologna process imposing the Anglo-Saxon forms without their

substantive features, concluding the process. In short, the research university component, as well as the opportunity of students to move across various fields has not been created, as the fundamental purpose of restructuring was to limit the number of student places to be financed from state coffers. Thus in theory even a BA should ‘sell on the labor market’.

As a result the quantitative expansion has failed to bring a corresponding improvement of the general understanding of economic matters either in business life or in wider political discourse.

Meanwhile academic economics was faced with a double challenge. Firstly, its traditional subject matter and focus, the reformed planned economy, simply disappeared. It was confronted with the unfriendly winds of an overtechnocratic, overambitious, often positively imperialistic mainstream, represented by various advisors, expats and young enthusiasts. Secondly, it was confronted with a lack of funding for fundamental, academic research, not least as a consequence of quantitative expansion of colleges and universities at a time of economic downturn (1988-97).

Still, systemic change has also presented new opportunities and detailed evidence cited in the preceding footnote has shown, that Hungarian authors were demonstrably successful in analyzing the historic novelty of the era, i.e the wholesale transformation of the economic system and its ups and downs in comparative perspective. Certainly the formidable oeuvre of Harvard/CEU Professor János Kornai constitutes a unique achievement, with the two seminal overviews, *The Socialist System* (1992) and *By the Force of Thought* (2006) having triggered a truly global echo.

In terms of education, fundamentally new trends have emerged, quite in line with global experience (Bourgignon, *et al*, 2007). Firstly, top schools have aligned their curricula with their UK/US counterparts. Secondly, and partly an outcome of this, many talented students, especially at PhD level, continue their studies abroad — in some of the most prestigious schools — while foreigners also come to study in Hungary. As an outcome, representatives of the post-transition generation of below 40s have found their way into top places, such as the *Quarterly Journal of Economics*, *Economica*, *NBER Macroeconomics Annual*, or *Review of Economic Studies*. Thirdly, extensive study of the EU and its enlargement has also produced a number of international publications. Fourthly, the ongoing study of the region and internationally recognized contributions to its understanding remained traditionally strong. Fifthly, in terms of geographical distribution, Ph.D training is no longer confined to the former single economics university. The doctoral school in Pécs with its focus on corporate finance, as well as the school in Debrecen with its focus on new institutional economics, now complement the traditionally leading schools in Corvinus (of mathematical and of

international economics). Last but not least, the two schools of the Hungarian-American Central European University, political economy and econometrics, serve as a bridge in terms of student and faculty mobility alike. This institution with its regional focus and exclusive emphasis on graduate education and competitive MA programs serves oftentimes as a bridgehead for able students to enter competitive western Ph.D programs, from Harvard and Michigan via LSE to the European University Institute in Florence.

What kind of balance sheet might be drawn from our bird’s eye perspective? On the one hand, it would be hard to deny the loss of the once imposing status that Hungary and her top economists used to enjoy, being basically the sole Communist bloc country where westerners could conduct open and professional exchanges on any issue of interest, locally and at international conferences alike. We have become, as we always longed for, a ‘normal country’, meaning our intellectual appeal has been cut back to size, set by economic strength and the (lack of) professionalism in educational and R&D policies of the past two decades. On the other hand, the penetration of the mainstream fora by the youngest generation is certainly a promising sign. All the more so as it has been coupled with the traditional presence of the older generation in area studies and regional issues, from logistics to agricultural economics.

Publishing in English has expanded considerably, both via participation in various international research projects (often EU funded) and relying on the autochthonous, local outlets. *Akadémiai Kiadó*, traditionally a brand name for readable social science from the east, now part of the Dutch W.Kluwer Group, continues to produce monographs of international interest. CEU Press is a unique university publishing house on the continent with a broad focus on social sciences and humanities and a strong presence in the Americas. The English language quarterly of the Hungarian Academy of Sciences, *Acta Oeconomica*, currently in its 58th volume and international advisory board and authorship, retains an edge in research in and on the region. And mathematical economists continue to be present in the new global markets (Simonovits, 2003; Medvegyev, 2007).

In sum, being an economist has become quite different to what it used to be, either in the interwar period, or under Communism. The variety of schools, approaches and orientations has been on the increase. The reintegration in the global community of scholars has been going on, not least via participation — at the highest levels — in such fora as the International Economic Association, the Econometric Society, the European Economic Association, The Royal Economic Society or the International Association for New Institutional Economics. Membership and ensuing presentations e.g to the annual general assembly of the American Economic Association has become regular. With ideological, lin-

guistic and conceptual barriers gone, competition in each of the market segments is stiffer than ever. But in all experience, this is the mechanism through which lasting academic accomplishment and quality control is being secured.

#### Notes:

1. László Csaba is currently Professor of Economics at the private Central European University, and at the University of Debrecen and Corvinus University of Budapest. In 1999-2000 he was also President of the European Association for Comparative Economic Studies. Since 2007 he is member/Corr./ of the Hungarian Academy of Sciences. His recent books include *The New Political Economy of Emerging Europe* as well as the forthcoming monograph, *Studies in European Political Economy* both published by Akadémiai/W.Kluwer. More information is on his website: [www.csabal.com](http://www.csabal.com)

2. Theo Suranyi-Unger has actually accomplished a successful academic career in the west after his postwar emigration, publishing books in Germany and the US on comparative economic systems, history of economic thought and economic development, until his death in 1973.

3. Exceptions — not at all numerous — included such highly technical and narrow fields as statistics, mathematics, international trade and history of economic thought.

4. As in many other Communist countries, it was primarily trained engineers and accountants, who often graduated into managers and later high public officials in charge of the economy, while too much of formal training might have resulted in being relegated to the Academy of Sciences or other research establishments of little practical influence and even lower remuneration.

5. The university, which was more pluralist in terms of teaching than its name would have had it, dropped the name of Karl Marx as early as 1986. It was rebaptized as Budapest University of Economics, and later, with a series of amalgamations with other faculties, as Corvinus University of Budapest in 1999, the old building still retaining his bronze statue as a relic of the past.

6. As documented in the handbooks cited in the references, representatives of this line tended to brand the entire profession as collaborators — in political terms — and ignorant in professional terms only by observing the differences we have elaborated in the main text. These persons themselves have rarely, if at all, accomplished anything notable in the global profession in terms of articles in leading journals or books published by leading publishers. In terms of the latter the 'old guard' was faring quite well, especially in regional comparison in 1970-90, as documented in Kaase *et al.*, (2002), and Wagener (1998)

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## The BHPS at 18

But the majority experience a succession of minimum-wage jobs or intersperse minimum-wage jobs with periods out of work.

### *Mental distress*

Mel Bartley, professor of medical sociology at University College London, uses BHPS data to show that the relationship between social class and mental health depends on two other influences: employment status; and mental health in the past year.

Among employed people, social class does not influence mental health. Among people not working because of early retirement, work-related disability or family commitments, social class is very strongly related to mental health. And among unemployed people trying to find work, mental health is worse in those whose previous jobs put them in the most advantaged social class. All these relationships are stronger among people who have experienced higher levels of mental distress in the past year.

Does low income lead to poor health, or vice versa? The evidence shows causal relationships in both directions. Income levels are more significant than income change. Persistent poverty is more harmful for health than occasional episodes. And income reductions appear to have a greater effect on health than income increases.

The full report, *In Praise of Panel Surveys*, is published by the Institute for Social and Economic Research (ISER) at the University of Essex.

A full copy can be obtained from the institute's website: [www.iser.essex.ac.uk/press/releases/docs/IPOPS.pdf](http://www.iser.essex.ac.uk/press/releases/docs/IPOPS.pdf)