A REVIVAL OF EUROPEAN ECONOMIC SCIENCE?

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If you are an economics professor at the Massachusetts Institute of Technology or at the University of Chicago, you stand a small but not negligible chance of receiving the Nobel Prize for economics – officially the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, awarded for outstanding contributions to the economic sciences.

As the title indicates, the prize is a European invention, funded by the Swedish central bank. It was first awarded in 1969 to two great European economists, the Dutch Jan Tinbergen and the Norwegian Ragnar Frisch. The most recent Nobel laureate is Jean Tyrole, a Frenchman. Reference to these European names is somewhat misleading however, for perusal of the complete list of winners reveals clear American dominance. Most prize winners worked and lived in the United States. The Chicago University alone claims 28 prize holders in economic sciences. MIT's list of Nobel Prize winners is 81-strong, of which 28 were awarded for their contribution to economics. Monsieur Tyrole also appears on the MIT list as he received his doctoral degree from MIT, and taught there for years as a visiting professor. There exists abundant data proving that official recognition in the field of economic science has gradually developed an American bias.

To start with, if you want to have impact in economics, you must publish in English. It was not always so. True, economic theory was elevated into the rank of received sciences in the second half of the 18th century, once Adam Smith, a Scotsman, published his *magnum opus Wealth of Nations*, and Britons, such as David Ricardo and Thomas Malthus wrote influential articles and books about the nature of market economy. But there were also other Europeans shaping economic thought and practice: Jean-Baptiste Colbert, Minister of Finances of France under King Louis XIV, François Quesnay, the founder of the school of the Physiocrats who started to refer to themselves as economists (*économistes*), or later Jean-Baptiste Say, a famed French economist (*Traité d'économie politique*, 1803). The list of German authors on *National-Oekonomie* and *Politische Oekonomie* includes Hildebrand, Roscher and List. The achievements of these personalities as well as the important contributions of other nations (Italians, Scandinavians, Spanish, North Americans, Poles and Hungarians) are well documented in the monumental volume of Gyula Kautz (*Die geschichtliche Entwicklung der National-Oeconomie and ihrer Literatur*, Vienna, 1860), the encyclopaedic Hungarian professor of the nineteenth century, who wrote in German as Dr Julius Kautz.

But that was a long time ago. By now, the terms political economy or national economy, and even economic science have been sidelined by *economics*. Since the publication of the seminal textbook of Paul Samuelson of MIT (*Economics: An Introductory Analysis*, first published in 1948) most students around the globe have been studying from American macroeconomics and microeconomics textbooks.

The process of Americanisation of our subject and its drivers are well presented in a recent book by Hungarian academic László Csaba (*Európai közgazdaságtan* [European Economic Science], Budapest, 2014). This paper reflects on Professor Csaba's thought-provoking and important volume which covers four interconnected topics: the Europeanness of contemporary economic science; the European concept of social market economy; evaluation of the transition from planned to market economy in Central Eastern Europe; and, fourthly, the contribution of "transitology" to the advancement of economic science.

One would imagine that there has been a lot of soul-searching in the economic profession after the eruption of the most recent, and surprisingly deep, economic and financial crisis of 2007–2009. Certainly much has been written on the state of modern economics and on the validity of the advice offered by economists. Yet the economics mainstream does not seem to have been on the retreat. Crisis? What crisis? – has been the reaction of many leading personalities of the profession.

How come that the obvious failure of the dominant economic model during the "subprime" crisis and its follow-up crises across the globe have not been enough to shake the position of the mainstream? Actually, what has happened is just the opposite: having reviewed the economic literature, Professor Csaba claims that the professional mainstream has become even stronger, at least as far as the doctrinal position of the leading (American) journals is concerned. Csaba examined the journals with so-called high impact factors – that is those that give the biggest career boosts when it comes to getting a teaching post, winning research grants, or gaining academic promotion. These are: *Journal of Economic Literature*, *Journal of Economic Perspectives*, *Annual Review of Economics*, *Journal of Political Economy*, and some other important periodicals, edited in the USA. *The Economic Journal*, *European Economic Review*, *Scandinavian Journal of Economics*, *Kyklos* and *Economic Policy* are high-standard European publications; yet their ranking is lower in most systems. The editing boards of the highest impact factor journals may not admit to represent the orthodoxy of our age, but content analysis reveals that the most influential periodicals, those with high impact factors, do in fact define the present mainstream – and they seek to maintain its dominant position. The structural dominance of a limited number of professional journals obviously narrows the scope of accepted views, and has a strong impact on the measurement of academic performances: publishing in a high impact journal increases your ranking in academia while publishing the same piece in a lower ranked journal counts much less in terms of impact factor.

What about books? Earlier, particularly in the continental tradition, it was the publication of a monograph that gave you some sort of standing in the profession as well as a boost to a promotion to professorship. László Csaba's view on the importance of books (monographs) is unambiguous: professional books are still vital as a medium of communicating scientific thoughts, particularly in social sciences. Yet, the odds seem to be against books these days. People read less books, young people in particular. In some promotion systems, strange as it may sound, having a book published counts a mere fraction of having an article published in a high impact factor journal.

This is weird. There are certain topics that can only be discussed if the author's subject is placed in its historical context, with references to antecedents and to potential social consequences. A highly technical article is frequently a marginal contribution to a narrowly defined issue, accessible to a few who are experts of the given niche subject. Editors and the editorial board of the "closed shop" journals may gradually degenerate into a clique – which is surely detrimental to the diversity of views and ideas.

I fully share Professor Csaba's opinion on the significance of books as a main output of academia. He adds, and again one can only support his position, that academic achievement in continental Europe should not be reduced to publishing in English only; it is the moral duty of the domestic academic community to communicate with the general public in its native language. This is particularly true for books: a monograph is something you cannot read in one go; you the reader may enter into imaginary dialogue with the author, unlike a reader of a short and technical piece of a professional journal. Articles, working papers and posters put the reader through a linear path from introduction to final conclusion. Books however, we know, *habent sua fata*.

The conclusion of Csaba's book on this count is modestly optimistic: he believes in a research programme aiming at restoring the European concept of economics as a social science. Under this concept, researchers acknowledge the historical roots of their subject, and academics would not suppress their ambitions to have an impact on the life of society for the sake of just being technically advanced and elegant. Research should be relevant to the needs of society.

Is this not a bit naive? Not at all. There has not been any massive introspection within the economic science. You can still notice that the profession has become somewhat more sensitive towards heterodox ideas than before, and more perceptive to the views of the rest of society. Consequently, it is not unlikely that we will witness much weakening of the position of the rigid orthodoxy. Still, I am a bit sceptical about the chances of the re-emergence of a European economic science, and even more so regarding the return of national schools (such as the "Scottish", "Austrian" or "Scandinavian" schools of yesteryear). Tendencies or schools of thoughts do exist, mostly organised around leading journals and publishing houses. But the nature of the job market, the logic of promotion in academia, and the internationalisation of editorial boards all work against the existence of national or regional schools. New forums also want to be recognised by the gatekeepers of the international quality check. The latter do belong to the mainstream of the era, by definition.

I am, however, more optimistic than Professor Csaba on the second issue examined in his volume: the relevance of the (European) *social market economy*. You may claim that social market economy – or let us put this way: *Sozialmarktwirtschaft* – is already a closed chapter in the history of economic thought and economic policy practice. The highly successful German economic recovery after the Second World War was associated with the particular concept of the role of the state and of the market under the *Ordoliberal* school of economic thought, represented by Wilhelm Röpke, Walter Eucken, Alfred Müller-Armack and Ludwig Erhard. On this theoretical foundation was the social market economy built in the 1950s – the decade of the *Wirtschaftswunder* (economic miracle) that catapulted war-stricken West Germany to the rank of a global exporting power and model economy. Yet, the high growth period was gradually closed, and Germany became similar to other welfare states of well-off Europe by the 1980s. *Ordoliberalism* and the model of social market economy lost ground in Germany – a high income nation absorbed in the glorious globalisation of the day. The economic system of West Germany did retain some elements of this particular market concept such as the co-decision process called *Mitbestimmung*, but the tone and agenda of theoretic debates all over Europe and particularly in advanced countries were set by the adherents of Keynesianism that quickly became the mainstream. Later however the Keynesian schools had to yield to others: Monetarism, Supply Side economics. Social market economy sank into insignificance, it seemed, even in 1980s Germany.

As Professor Csaba states in his chapter on European social market economy, this was a model in two senses of the term: first, as a heterodox theoretical model or school within the economic sciences, and second, as a functioning economic system that others could take as a model economy. Once the *Wirtschaftswunder* years were over, West Germany became a genuine welfare state under Social Democratic rule. Later, after unification, the German economy faced various competitiveness challenges in the early 1990s. In summary: the appeal of the above model gradually faded away. Put another way, social market economy went out of fashion.

There exists a lot of misunderstanding concerning the meaning of the term social market economy. One major source of misunderstanding is the adjective *social*. The German term *Sozial* is far from what the English (or for that matter, the Hungarian) equivalent indicates. As an adjective before the term *market*, it does not at all imply *less* market or a *softer* version of market order. *Sozial*'s message includes instead that all segments of the society should take part in socially useful economic activities; its supporters rejected the proletarisation of masses trapped in welfare dependence; they were critical of "big government" as much as of "big business". Thus the meaning of this adjective should never be confused with that of "social" in contexts like "social worker", "social security". You could even claim that the social market system is a stronger, more active capitalism than other modern versions of the market order, particularly the Welfare State. Mind you, Röpke rejected the central tenets of Keynes's theory, particularly using debasement of the currency (managed inflation) as a policy instrument. Once he quipped that "Had not Mr Keynes written his *General Theory*, the economic profession would have been poorer. We all would have been richer."

Needless to say, social market economy has nothing to do with socialism, even if some socialist politicians use the term social market without knowing anything about the roots, history and the particular German practice. I always found it funny when Hungarian socialist politicians claimed to be supporters of social market economy – a model put to work under German Chancellors such as Adenauer and Erhard, hardly role models for Hungarian socialists who have been in government and in opposition for decades as comrades-in-arms with left-leaning liberals, rejecting the values and beliefs of the aforementioned German politicians.

The confusion has been increased by book titles such as the "third way" or "middle ground", as if *Sozialmarktwirtschaft* stood between capitalism and socialism. The fact that W. Röpke's book was published in Hungarian under the title *Harmadik út* ("Third Way"), must have had a confusing impact on the otherwise receptive Hungarian audience (as I discussed in my piece on the perception of *Ordoliberalism* in Hungary – Bod, 2010). Also, the title of Erhard's essay (*Wohlstand für Alle* – "Wellbeing for all") sounds very populist as it promises something that no serious academic would – but he was at the time of its writing a centre-right politician.

To his merit: its text is free of populist ideas. Still, the adjective causes some trouble. The term *Ordoliberal* would not be much help either outside Germany to bring home the real message of that school of thought.

Yet, I would not subscribe to the impression that the social market economy is a thing of the past, or to the view that when the term appears in a contemporary context (say, the present Polish Constitution, or the Hungarian Constitution of 1989), it is only because of "mistaken identity". One can put forward strong arguments to support the claim that important elements of the theoretic construct of Röpke, Eucken et al. have become standard building blocks of the present European economic order. Such a cornerstone is government support to the small and medium size enterprises (SMEs) – an exemption from the general prohibition under EU rules for the state to directly fund businesses. All European governments provide support in some way or another to SMEs, without necessarily knowing about the original German concept of strengthening the so-called *Mittelstand*. Another European core policy is to keep product markets open, and restrain big firms in their efforts to control market segments. The Competition Commissioner is typically the best known member of the European Commission, since she or he has real power to keep anti-competitiveness tendencies, so typical of modern economic life, under control. It is not an exaggeration to claim that the pro-competition vein in the European economic policy core is a living legacy of the social market economy school.

Similarly with the European practice of conflict management: the present (slightly neo-corporatist) labour rules and social dialogue frameworks go back to the recommendations of the social market economy school with respect to concerted efforts (*Mitbestimmung*). And finally, the broad dislike of using inflation as a macro-policy instrument may be partly due to the collective memory of Germans who suffered a lot from the terrible hyperinflation of the 1920s. In addition, stable currency is part of the economic theoretic foundation of a "good economy" as defined by the founders of the social market economy school.

But the question is still valid: can social market economy as an economic science concept and system still be relevant for the so-called transition countries of Central and Eastern Europe? Scepticism is justified, judging by the gradual decline of the concept even in Germany. Yet I for one, strongly believe that key components of this socio-economic concept are very much applicable to the new member states of the European Union, exactly because of their legacies of the period of central planning. Some support for this belief is provided by the closing two chapters of Mr Csaba's volume: his evaluation of the regime change in Central and Eastern Europe, and a look at the contribution of "transition" literature to the main body of economic science.

He notes that although the transition (or rather: return) to market order has mostly been successful in terms of institution building, absorption of foreign capital and structural change, there remain some serious weaknesses in the economic order of the countries concerned: low labour market activity, sizeable black economy, and lack of transparency within the oversized public sector, among others. It is well known that policy advice from Western governments, international financial institutions and academic circles offered to the region in 1989 and after suffered from a strong neo-liberal bias. The mainstream of the age recommended quite simple solutions to the complex problems of the former planned economies: privatise, deregulate and liberalise fast, and market forces will do wonders. Sideline the State as much as you can, since market institution and market players will take care of themselves.

Now, the State has not faded away in any country (Hungary is a special case with a higher than average degree of income redistribution through the budget, and a very high share of the public sector in employment). Attempts to reduce the regulatory activities of the State have frequently led to failures and distortions in the functioning of the emerging market. At this point, criticism of the neo-liberal consensus is certainly valid. But this is exactly where the concept of the *Ordoliberal* economic school could be of help. The State of the original social market economy model is leaner than the one under the Welfare State concept, but it is far from being a benign "night watchman" State as recommended by some liberals of libertarian schools. It is obvious from the history of the socio-economic transition of the CEE region that the minimum state concept is not applicable, and efforts to leave government out of the key structural processes (privatisation, change in employment patterns, regional differentiation, the issue of poverty, and so on) would only multiply the downward risks to the transition process. I am convinced that social market economy, with its heavy accent on employment, particularly in the small and medium sized enterprise sector, and its determination to maintain the market order utilising the State's instruments (competition policy, tax policy, regulations) would offer a better formula for a country in transition than other competing concepts of the era.

Now, twenty-five or so years after the collapse of the old order in CEE, we certainly know much more about the dynamics of social and economic changes. People count, history counts, geography counts. Fundamental changes can never be modelled properly in a reductionist model concept of the economy, so frequently used in mainstream economic analysis. As Professor Csaba notes, it is not the rate of economic growth, nor the speed of structural changes but the financial, social and environmental sustainability that counts when it comes to gauging the degree of success and failure of the transition process. Only the holistic approach can work on the longer run.

This is probably the simplest but most important conclusion from the lessons of recent decades for economic science. The holistic approach has had a long strand in European thinking. European economic science once again? Or should we aim for less: offering a genuine European contribution to the one common economic science? These are issues to debate. But what this important book of Professor Csaba underlines: identifying and acknowledging the broad social context of any major economic phenomenon is an integral part of the attitude that we can call European.

References

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