Lord Keynes’ famous dictum may sound a bit hollow in the face of growing skepticism regarding the relevance of modern economics and, in particular, mounting criticism of “autistic” neo-classical economics. It is reassuring, then, when a prominent example appears to show that theory can still be ahead of politics.

The European Commission’s Danube Strategy is one such case in point. It is certainly rather late in the making, given fairly obvious conclusions from regional economics, agglomeration economics, and the theory of policy all hinting at the potential of this particular region. Centripetal externalities drive agglomeration, which is likely to cluster where low transport costs, suitable institutions and cultural commonalities support it. The Kárpát Medence – at least the Western parts of it – and the borders of the Baltic are alike in that they exhibit these conditions to an extraordinary degree.

To be fair, political forces have not been entirely unreceptive of these facts in past. Among a large number of initiatives, the founding of Andrássy University in 2002 stands out. This German-speaking Hungarian institution has been predicated on the general idea outlined above from the first. The Republics of Hungary and Austria, the Helvetic Confederation as well as several German States adjacent to the Danube convened to found this project to further just the potential of agglomeration outlined above. And while they were at it, they duly figured that given past cultural links, this particular cluster might as well be German-speaking.

The articles assembled in this book share a common outlook based on the simple tenet of agglomeration economics cited above and a willingness to go beyond neoclassical economics in explaining political and economic outcomes. Their authors as well as the editors, on the other hand, share common links to Andrássy University. Some of us held significant posts at this University, some are still involved with its present business, and all of us contributed to at least one of AU’s seminars in the past.
So why is this introduction, as well as some of the papers to follow, written in English? The answer is simply that in promulgating its conceptive idea, the proponents of Andrássy University found that a number of neighbours to the Kárpát Medence were also interested in the idea of reinforcing economic growth in the region, and in the European cooperation that is a precondition of it. In the years 2005 and 2006, a couple of seminars ensued, held at Andrássy University as well as at the Leucorea in Wittenberg, Germany, with a common theme of how the principles of the Social Market Economy (SME) might be applied to further growth in South-East Europe. In a nutshell, the question is how, why, and in which guise the precepts of SME can serve as the principles of “sound institutions”, which we have previously identified as one of two determinants of where sustained agglomeration may take place. Our collective answer to this question is presented in this book. And we frankly do not care that parts of it are presented in English, while the bulk is still in German.

The articles in this book fall into three broad categories: the normative foundations of, (alternative) visions for, and the application of policy advice. They are accordingly grouped into three parts. All these papers, however, share a topical focus on Social Market Economy and a regional focus on South-East Europe.

The first part is mainly concerned with the foundations of giving political advice based on SME precepts within a constitutional economics framework. Ulrike Schenk opens this discussion with a contribution to the history of economic thought, comparing two versions of (economic) liberalism, the German version of *Ordnungstheorie* and, by extension, SME on the one hand and Hayek’s vision on the other. By going *ad fontes* and neglecting the mixed approaches typical of modern constitutional economics, Schenk exposes the fundamental difference between the two, which helps better to explain a series of issues in the application of these theories to the re-structuring of current economic systems. Next is a short essay by Michael Bolle juxtaposing the economist’s and the politician’s problems in formulating, and in accepting, policy advice. Bolle concludes that one can think of the economist’s problem as a constraint on the maximisation of power by the politician. The final paper in the first part of the book, by Stefan Okruch, again looks at the theoretical and historical foundations of *Ordnungstheorie*. This time, however, it is the sociological roots, and the important sociological component, of the original German conception of SME. Okruch draws much of his sociology from Durkheim, and goes on to compare this approach to Hayek, with similar results to Schenk’s contribution.

The second part of this book moves on to address particular modelling frameworks for political economy. We chose to put Ingo Pies’ paper first in this section as he also draws upon a look at the history of economic thought to develop his own approach, known as orthogonal positioning or, more generally, as
Ordonomik. This normative theory extends Buchanan’s well-known two-tiered analysis of decisions within rules and decisions about rules by adding a third, semantic layer. The idea is to re-cast all political conflict as PD-type games semantically, pointing out the gains from co-operation on the first (action) level, thereby easing the rule-finding process at the second level. In the second paper, Ellen Bos addresses the role of “think tanks”, or semi-private consulting organisations, in formulating policy. Various problems related to a possible privatisation of policy-making emerge, and prominent examples from German politics – for example the vaunted Hartz Commission – are discussed. Christian Müller takes another venerable idea from constitutional economics, viz. John Rawls’ conception of “primary goods”, and explores how this can be used for applied research as well as for policy advice. Müller also provides some welcome background on the epistemological issues involved when using access to primary goods for measuring the quality of life.

Finally, the third part of the book takes the theory to the field. Our authors draw on considerable experience in policymaking in their respective South-East European countries – Albania and Hungary are represented in this book – to formulate both a policy outlook for South-East Europe and conclusions for policy advice. Pétér Ákos Bod begins by looking at the implementation of SME in Hungary. In so doing, he goes back to the original formulation of the concept and its contemporaneous impact on the Hungarian literature, then continues to follow the thread of its implementation after the demise of the communist regime. Bod also discusses some remaining problems and potential – as well as likely – solutions. Dhori Kule, Sulo Haderi, and Shkelqim Cani present the first of our two papers on Albanian issues, discussing the problems of the financial sector in this country and how it might be reformed. For economists unacquainted with the history of the region, their discussion of the failed pyramid schemes of the 90s will have particularly interest. In the final paper, Vasilika Kume and Tonin Kola take up the issue of a possible future integration of Albania into the EU, listing the country’s strengths and weaknesses as well as pointing out avenues for reform.

In his usual flippant vein, P. G. Wodehouse once quipped that “I always used to think that publishers had to be devilish intelligent fellows, loaded down with the grey matter; but I've got their number now. All a publisher has to do is to write cheques at intervals, while a lot of deserving and industrious chappies rally round and do the real work. I know, because I've been one myself.” The decent thing to do when publishing, then, is to thank the deserving chappies – particularly in academia, where the deserving chappies also get to write the cheques.
Vorwort

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