

Title: Efficiency Concepts in the History of Political Economy

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Abstract

Modern economics focuses largely on extremely abstract notions of efficiency, such as the Pareto and Kaldor-Hicks Principles. There exists a wider range of efficiency concepts that the modern mainstream literature either ignores or mischaracterizes. Theorists like Thomas Hobbes, Ludwig von Mises, and James Buchanan stress the importance of the foundations of social order. Emphasis on these factors implies the existence of a kind of formative efficiency criterion. FA Hayek, Thorstein Veblen, JM Keynes, JA Schumpeter, and Karl Marx stress the importance of conflict and the evolutionary stability of institutions. These theorists implicitly employ a kind of evolutionary efficiency criterion. Ronald Coase and Harold Demsetz focus on the relative static performance of feasible institutional alternatives. Their approach focuses on the feasibility, in narrow utilitarian terms, of alternative institutional arrangements, given transition costs. These approaches differ significantly from the optimization approach that modern economists routinely employ. Mainstream efficiency concepts focus narrowly on utilitarian aims without dealing with important institutional and ideological factors. This paper identifies four distinct categories for efficiency concepts in the history of social theory, and examines them in detail. It also critiques the existing emphasis on highly abstract and static efficiency concepts.