



STUDIES IN ECONOMIC TRANSITION

# COLLECTED WORKS OF DOMENICO MARIO NUTI, VOLUME I

Socialist Economic  
Systems and Transition

*Edited by*  
Saul Estrin · Milica Uvalic

palgrave  
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# Studies in Economic Transition

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Saul Estrin • Milica Uvalic  
Editors

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and Transition

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# 1

## An Introduction to the Collected Works of Domenico Mario Nuti

Saul Estrin and Milica Uvalic

### 1.1 Domenico Mario Nuti's Life and Work

These two volumes bring together many of the most significant contributions to economic theory and policy of Domenico Mario Nuti (1937–2020).

Mario's remarkable professional career is intrinsically linked to his rich and eventful life. He was born and received a classical education in Arezzo (Italy) and grew up in the nearby Tuscan village Castiglion Fibocchi.<sup>1</sup> After having graduated at the University of Rome in 1961 with a thesis on “Problems and models of economic growth”, he worked briefly at the Bank of Italy and at the Inter-Ministerial Committee for the Development

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<sup>1</sup> Further details about Mario Nuti's life can be found in Chapter 2 of Volume 1, which contains his autobiography.

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of Southern Italy, seeing at first hand the problems of underdevelopment and poverty. A scholarship at the Polish Academy of Sciences took Mario to Warsaw in 1962–63, where he learnt Polish and was taught by Oskar Lange and Michal Kalecki, two giants of socialist economics. They both strongly influenced Mario's research interests and remained lasting intellectual influences. It was upon the recommendation of Kalecki that Mario was admitted in 1963 to King's College, Cambridge, to work under the supervision of Nicholas Kaldor and Maurice Dobb towards his 1970 PhD on "Problems of investment planning in socialist economies". Mario stayed at Cambridge University until 1979 as a Fellow of King's College and later as Lecturer in the Faculty of Economics. During those years, Mario was deeply involved in the debates among Cambridge economists which embedded Mario's understanding about macroeconomics, growth and the possibilities for widespread state intervention in the economy. These experiences led Mario to develop his own intellectual framework, combining his knowledge of the socialist economy with his understanding of macroeconomic issues and leavened with his own fierce logic and systematic analysis. Mario was appointed Professor of Political Economy and Director of the Centre for Russian and East European Studies at the University of Birmingham in 1979, where he continued to explore how to combine socialist ideals with elements of a market system.

In 1982, Mario left the UK to take up the position of Professor in Economics at the European University Institute (EUI) in Florence, where he stayed until 1990. The protracted economic crises in Eastern Europe during those years brought a number of important and controversial issues onto the research agenda, to which Mario made significant contributions. While at the EUI, Mario organized seminars and conferences on socialist economies, inviting the most prominent experts on Eastern Europe, both from the East (e.g. Tamas Bauer, Janos Kornai, Vladimir Dlouhy, Grzegorz Kolodko) and the West (e.g. Jozef van Brabant, Włodzimierz Brus, Gregory Grossman, Kazimierz Laski, Marie Lavigne). Mario's interest in comparative economic systems led him to launch another project, on economic democracy, inspired by James Meade's early work on alternative ways of firm organization. The project focused on the labour-managed firm and Italian cooperatives and involved Saul Estrin, Derek Jones, Steve Smith, Jan Svejnar, Will Bartlett and Milica Uvalic. Soon after, Martin Weitzman's work on profit-sharing inspired new

research on participatory forms in the European Community, which resulted in the publication of the PEPPER Report (an acronym coined by Mario that stands for Promotion of Employee Participation in Profits and Enterprise Results).

After the fall of the Berlin Wall, the European Commission lacked the expertise to deal with the momentous changes this event heralded, so Mario was invited to Brussels in 1990 as an advisor to DG-II (Economic and Monetary Affairs, as it then was called), with responsibility for relations with transition economies. He returned to his alma mater, the University of Rome *La Sapienza*, as Professor of Comparative Economic Systems in 1993, a position he held until his retirement in 2010, alongside other appointments. Thus, during 1993–2005, Mario was also Visiting Professor at the London Business School (LBS) working closely with Saul Estrin, head of the Centre on CIS and Middle Europe, jointly running a seminar on transition economics. Mario's engagement with policy went even deeper after 1994, when he was appointed Economic Advisor to the Polish government—under Grzegorz Kolodko from 1994 to January 1997; Marek Belka until September 1997; and again, Kolodko in 2001–02, during the final stage of Poland's successful accession negotiations with the European Union. Mario's deep knowledge and expertise on socialist economies brought him other important assignments. He was consultant to the World Bank with a number of missions to Poland and work on post-communist economies; economic adviser to President Lukashenko of Belarus under World Bank sponsorship (1998); consultant to the IMF, ILO, NATO, UNDP, OECD; and Specialist Adviser to the House of Lords European Communities Committee (1993–1994).

Mario Nuti became an Emeritus Professor of the University of Rome *La Sapienza* in 2010 and also remained an Honorary Senior Research Fellow of the Centre for Russian and East-European Studies at the University of Birmingham. His retirement did not interrupt his research, production of papers and commentaries (including his blog, "Transition") and active involvement in various projects. In October 2017, he presented one of his last papers on "The Rise and Fall of Socialism" at a conference in Berlin published in 2018 (see Volume 2).

Mario made significant intellectual contributions across many fields, inspiring generations of students and colleagues for more than fifty years.

However, he is fairly difficult to classify as an economist, not least because in order to get to the heart of complex ideas, he played the role of an iconoclast. Much of his work was centred on trying to understand actual socialist and capitalist systems, conceptually and in practice, as well as, later, the paths from socialism to capitalism.

Our purpose in these volumes has been to select from Nuti's papers so as to make his best works, including his policy contributions, readily accessible. Moreover, in bringing his work together for the first time, we hope as well to elicit the underlying intellectual framework. Mario made contributions across a variety of topics that have resonance and significance today. In particular, he brought an original and distinctive intellectual vision to bear on some of the grand issues in economics: what drives growth and development; what is the most efficient economic system; can socialism be combined with markets; how should firms be organised; and how should economies be managed? To these questions, he provided answers which continue to have contemporary relevance. His was also a powerful intellectual voice for a more radical theoretical and policy framework to analyse the economic problems in his homeland, Italy, in the UK, and in various transition and developing countries.

Much of Mario's published output is fragmented across a variety of scholarly and policy outlets, while some of his most significant works are only available in publications that are neither readily accessible or simple to find. We have tried to select papers that cover the whole range of his ideas and contributions, including some unpublished papers. In some cases, we have chosen versions of his papers different from those actually published, because in our judgement, they more clearly present his analysis and arguments. Moreover, we have left the papers as written with no editorial intervention (although minor errors in subediting of texts have been corrected), so that Mario's voice can be heard as he intended through his own words.

Mario had a coherent intellectual vision which was well understood by his colleagues and close associates, and which we hope to transmit to a wider audience by publishing these volumes. Mario never produced an integrated account of his contributions, except, partly, through the blog "Transition" where he made available most of his papers written after

2009. Mario also did not produce a full bibliography of his own work. A more complete bibliography is provided at the end of each volume.

## 1.2 Structure of the Two Volumes

We have organised our selection of papers into five areas spread across the two volumes. The first volume entitled *Socialist Economic Systems and Transition* is concerned with Mario's writings about socialist economic systems, their growing problems in the 1980s and their abrupt demise at the end of that decade. The papers in the first volume are organised into two sections: Socialist economic systems and the Transition to a market economy respectively. The second volume entitled *Economic Systems, Democracy and Integration* is more wide-ranging and includes papers in three areas: Evolution of economic systems; Economic democracy; and East—West integration and globalisation. The papers in the first part of Volume 2 are more theoretical, and concern Mario's analysis of the functioning of capitalist and socialist systems. The papers in the second part focus on Mario's lifetime concern with alternative ways to organise production and the possibilities of bringing economic democracy into the workplace. In the final section, we bring together Mario's recent writings about some topical issues in the new EU member states in the 2000s, as well as his concerns about globalization, the state of the world economy and the problems of the European Union. We provide brief Forewords for each of the five sections to integrate the arguments across the papers.

In organizing these sections, the classification of Mario's writings into distinct research areas has been a heroic task, since there is a substantial overlap of underlying themes across his writings. This should be of no surprise, since a handful of fundamental concerns have been at the basis of Mario's research throughout his life, from his early days in Cambridge to his more recent work on the transition in Eastern Europe and globalisation. Perhaps the major concern that inspired much of his life-long research revolves around the quest for a more just and more egalitarian economic, social and political system. Indeed, the search for a more democratic economy and society can be found at the basis of many of his papers. As well expressed by Michael Ellman in his memorial article,

“Nuti considered that economics should be about understanding the world and using that understanding to help improve the life of its population.” (Ellman, 2021, p. 1363).

Thus, Mario’s reflections on socialist economic systems closely overlap with some of his writings on the evolution of economic systems, but also anticipate themes related to economic democracy. Similarly, the themes addressing the transition to a market economy are closely inter-related with those covered by topics on integration and global economic issues, while reflections on the evolution of economic systems are intrinsically linked to the broad area of comparative economic systems.

While he held a variety of prestigious academic positions, Mario was never just an ivory tower economist. We have seen that he was closely involved in analysing and advising international organizations about policies during transition in Central and Eastern Europe. His rigorous training in economic theory combined with his long practical experience meant that his papers on transition, as well as his more recent work on global economic issues, bring a unique perspective and provide long-lasting lessons from his analysis of what were then contemporary issues. Mario continued to reflect on major economic topics throughout his life, in his later years through his blog site, and we include few of these writings in order to indicate his thinking on these more contemporary issues.

In the remainder of this Introduction we will briefly present the five areas of Mario Nuti’s opus following the classification adopted in these two Volumes.

### 1.2.1 Socialist Economic Systems

The section on Socialist Economic Systems includes Nuti’s work on the functioning of the Soviet-type centrally planned economies and variants that developed during the post-Second World War period in Central and Eastern Europe. Mario’s interest in this topic no doubt was strongly influenced by his early studies in Warsaw and the economic discussions at Cambridge University in the 1970s. The topics he addressed reveal his deep Keynesian (and Kaleckian) influences, focusing on investment, trade cycles and growth in socialist economies.

Mario was primarily interested in the functioning of actual socialist economies, ‘realised socialism’, from Soviet planning through market socialism in Hungary to the self-managing socialism of Tito’s Yugoslavia. He always favoured clear definitions and careful categorisation. He was not in sympathy with the traditional Soviet variant of socialism, which he described as ‘Rugged ... the bestselling type of socialism’, but was more positive about the Yugoslav and Hungarian reform variants, though not entirely convinced by either. In particular, he described Yugoslav socialism as an ‘ingenious and peculiar system’. More generally, he was intrigued by market socialism which he viewed as a capitalist system improved by embodying socialist features.

Mario addressed the question of why socialism everywhere collapsed in 1989 only in his later papers, but many of his writings offer important insights about the key contributors to its demise. In addition to the protracted economic and political crises, he stressed the positive role of Gorbachev’s Perestroika and Poland’s trade-union movement *Solidarność*. He noted that none of the reform systems had traction in their own right; when the Soviet Union withdrew and then fell, they all fell too; even the Yugoslav variant disappeared at the same time as systems based on central planning. He felt this was because the socialist systems were unable to reform themselves further and the Party was unwilling to give up its monopoly of power, even when this might have helped the long run survival of the system. In Mario’s view, the collapse of the Soviet Union did not invalidate the socialist model: it was the failing of one (unattractive) variant of it. He argued that Soviet-type socialism suffered greatly from the belief that economic laws would not operate at all in the socialist economy.

### 1.2.2 The Transition from Socialism to Capitalism

Given his deep understanding of socialist economic systems, Mario was well placed to analyse questions of the transition to a market economy. In the absence of blueprints at that time, his innovative ideas on how to implement radical reforms of the socialist economy were important in defining the main objectives, speed, and sequencing of economic reforms;

suggesting desirable macroeconomic stabilization and exchange rate policies; and explaining the specific supply inertia behind the deep recession of the early 1990s. He was also deeply involved in analysing the advantages and disadvantages of different privatization methods, arguing in favour of a multi-track approach. He warned against the glorification of mass privatization ‘as a method for implementing instant, irreversible, politically self-supporting, large-scale capitalism’. He also warned against simplified interpretations of dominant insider ownership, a frequent yet unexpected consequence of privatization in many countries across Eastern Europe.

Mario was also among the first to emphasize the flaws of the transition to a market economy. These included the high social costs of transition: the persistence of unemployment, the rise of inequality and of poverty. These phenomena were particularly serious because they meant a drastic reversal of earlier conditions of full employment, greater equality and low poverty incidence. He was also a fierce critic of hyper-liberal economic policies, arguing that excessively restrictive monetary and fiscal policies are detrimental for economic growth.

### 1.2.3 Evolution of Economic Systems

A related area of Mario’s work is about how economic systems evolve. Most economists have for years regarded capitalist systems as inherently superior to socialist ones though the latter may have some potentially attractive features in terms of income distribution and other values. Mario’s analysis was more nuanced, pointing to developments in general equilibrium theory that might invalidate such claims of inherent superiority. To quote, ‘I believe the neoclassical picture of the capitalist economy is fantasy because markets are both incomplete (where are the future markets for manufactured goods, or the contingent commodity markets?) and, most importantly, sequential. Hence resource allocation is ruled by price (and quantity) expectations as much as by actual spot prices, and therefore from [the] Arrow-Debreu [model] we instantly fall into a Keynesian world of expectations—whether self-fulfilling or false—of underemployment equilibria and economic fluctuations’ (see chapter 2,

Volume 1). There is little doubt that his thinking was strongly influenced by both the Cambridge School, including his supervisors Kaldor and Dobb, but also mathematical socialist economists from Eastern Europe including Kalecki, Lange and also Dmitriev, whose work he introduced to the Anglo-Saxon world with an Introduction to the English translation of his Essays.

Mario's papers in this area were largely theoretical papers including work which criticises, from a Kaleckian perspective, the Kaldor-Mirrlees model of growth, and contributions to the lively debate between the followers of neoclassical economics and those in the Keynesian, Marxian and Ricardian traditions about the measurement of capital and the use of aggregate production functions. Further, Mario developed a critique of traditional capital theory that developed a 'flow-input flow-output' model, inspired by Kalecki's investment criteria and compared Kalecki and Keynes in their approaches to demand-determined income.

Mario was also concerned about the evolution of economic systems in practice. He sought to analyse from a comparative perspective a variety of models, including recent variants of the socialist economic system—such as that of China. Some of the included papers also provide comparisons over time of the evolution of economic systems.

### 1.2.4 Economic Democracy

Mario had a profound interest in industrial and economic democracy, alternative forms of enterprise that assure workers' participation in decision-making and in enterprise results. His work was inspired by the practice of workers' cooperatives, profit-sharing and co-determination in western market economies and the self-management experience in Yugoslavia. He was also interested in the experiences of employee ownership in western market economies as well as in workers' share-ownership in many East European countries as a result of privatizations in the 1990s.

His research interests did not preclude his open criticism of some of the most influential works. Mario considered Martin Weitzman's Share Economy, that proposed giving workers a share in profits in addition to a fixed wage and leading to full employment resilient to deflationary



shocks, 'a Catch 22' based on 'claims and overclaims'. Similarly, Mario was a great admirer of James Meade's work, but he questioned the assumptions of Meade's capital-labour partnership due to the violation of the principle of equal pay for equal work. Through his critical analysis of existing models, Mario tried to elaborate his own, that would offer more viable participatory solutions.

With the start of transition in Eastern Europe, Mario raised his voice against simplistic generalisations regarding the negative implications of diffused employee ownership. In countries that had to privatise entire economies but had no domestic capital and lacked the major interest of foreign investors, privatizations had often led to the sale of shares under privileged conditions (or free distribution) to workers. Hence, insiders often became the dominant shareholders 'by default'. Mario was well aware of the drawbacks of the insider-controlled firm, but he formulated the conditions under which the expected adverse effects would be avoided, showing how the outcome depends on the worker's short-term interests as a wage-earner and his/her longer-term interest as a shareholder. Inefficiencies would arise only if employees as shareholders had a lower share in company equity than they had in labour supply as workers. Mario also correctly anticipated that enterprises in which insiders held a controlling interest might be institutionally unstable. He further considered that employee participation in enterprise results encourages higher labour productivity, not so much via greater individual effort (given that the employee only gains a fraction of the extra product due to his/her greater effort), but through the greater intelligence and cooperation with which any given effort is exercised and through mutual employee monitoring. He argued that employee ownership creates a sense of identity with the company, improves channels of communication and the chances of avoiding and resolving conflicts.

### **1.2.5 East-West Integration and Globalisation**

Mario's research interests included issues related to integration between Western and Eastern Europe, and therefore also the policies of the European Union. He stressed the benefits of fast Western support of the

countries of Central and Eastern Europe after 1990 and contributed one of the first in-depth analyses on the impact of the transition on the European Union. He was also involved in examining the benefits and costs of adoption of the Euro by the new EU member states. Another concern regarding the new EU member states was that most had adopted social models based on the liberal approach, with weak trade unions and a minimal role of the welfare state, thus contributing to the ‘dilution’ of the European Social Model. When the global financial crisis hit the European Union in 2007–2008, Mario drew an interesting parallel between the underlying causes of the crisis in developed market economies and those in Eastern Europe, pointing to the common features of subprime loans in the West and East.

Mario was an attentive observer of the challenges posed by increasing integration and by the unregulated nature of many global processes. He noted, in 2009, that globalisation is equally as spectacular in its progress as in its incompleteness, in addition to being distorted and unfair. In his view, globalisation was incomplete because of the maintenance of many forms, often intense, of protectionism and the proliferation of free trade agreements. He also viewed it as distorted, unfair, and asymmetric in favouring the international mobility of capital rather than labour and financing global imbalances instead of investment and growth in poorer countries. He therefore considered essential to create and strengthen redistribution agencies at all levels—of nations, commercial blocks, the global economy. He was prescient in pointing out that failure to govern globalisation and to correct its impact on poverty, inequality, and redistribution, would breed increasing opposition to its further progress.

Additional challenges are faced regionally by the member states of the European Union and especially the Eurozone, given the disintegration trends resulting from their dysfunctional construction. Mario particularly condemned the persistence of austerity policies, showing that fiscal consolidation can actually increase, instead of decreasing, the public debt/GDP ratio. He believed there were remedies in line with the original European design—such as a common asylum acceptance regime to reduce the migration crisis, or excluding public investment from the permitted public deficit, that would loosen austerity; but he was also aware that these remedies may not be consistent with what he saw as the dominant hyper-liberal perspective.

### 1.3 Concluding Remarks

Mario always stressed that no theoretical paradigm in economics should be accepted *a priori*, but its use should depend on the problem to be solved. This was in line with his own approach. In his autobiography, he wrote: ‘I am not fond of labels; like all aggregates they destroy information and are potentially misleading. If pressed, I would choose a handful of them. I would call myself a keynesian-kaleckian-kaldorian-robinsonian when modeling the macroeconomics of the capitalist economy; a “left-wing monetarist” ... when modelling the macroeconomics of the socialist economy; a consumer of Marxian techniques when studying the dynamics of economic institutions and systems, but ready to turn them against Marx-inspired systems with a vengeance; a neo-classical in microeconomics, convinced of the importance of prices and a strong supporter—though very critical—of markets as homeostatic mechanisms, indispensable no matter how crude or imperfect. What approach is best depends on the question you ask (Oskar Lange); you choose a model as you would choose a map, according to the nature of your journey (Joan Robinson)’ (see chapter 2, Volume 1). In these Volumes, we have tried to illustrate the richness of models and frameworks he applied as his eye roamed across a wide variety of economic issues over half a century.

Mario Nuti had many students, collaborators, colleagues, close friends. On the occasion of his 70th birthday, a Festschrift was prepared by his colleagues to honour his work, with contributions, in addition to the editors, by M. de Cecco, L. Csaba, S. Commander, P. Desai, J. Eatwell, M. Ellman, M. Keren and G. Ofer, V. Popov, S. Godoy and J. Stiglitz, J. Prasnikar and J. Svejnar, and V. Tanzi (Estrin et al., 2007). Mario taught his students to be critical, rigorous, thorough, substantiating every sentence they wrote; in this, his own papers served as the best example to follow. He transmitted to his students the passion for research and thorough analysis, as he was never satisfied with simple explanations. Nor was he always an easy interlocutor, especially regarding issues about which he had strong beliefs, but he was always ready to enter a discussion about alternative views. As these volumes show, he was an intellectual of a special kind, with a critical mind and great knowledge in many fields that extend far beyond economics.

## Bibliography

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# 2

## Domenico Mario Nuti (1937-)

Domenico Mario Nuti

I am flattered at being classed as a rebel but I regard myself more as an omnivorous eclectic (of “catholic” tastes, I would say, if that label were not so potentially confusing when applied to a non-practicing atheist). I am not fond of labels; like all aggregates they destroy information and are potentially misleading. If pressed, I would choose a handful of them. I would call myself a keynesian-kaleckian-kaldorian-robinsonian, when modelling the macroeconomics of the capitalist economy; a “left-wing monetarist” (as Peter Wiles recently actually called me) when modelling the macroeconomics of the socialist economy; a consumer of Marxian techniques when studying the dynamics of economic institutions and systems, but ready to turn them against Marx-inspired systems with a

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Mario Nuti’s contribution to the *Dictionary of Dissenting Economists* edited by Philip Arestis and Malcolm C. Sawyer, Elgar Publishing, London, 1992. Domenico Mario Nuti passed away on 22 December 2020.

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vengeance; a neo-classical in microeconomics, convinced of the importance of prices and a strong supporter—though very critical—of markets as homeostatic mechanisms, indispensable no matter how crude or imperfect. What approach is best depends on the question you ask (Lange); you choose a model as you would choose a map, according to the nature of your journey (Joan Robinson).

I was born in the Tuscan town of Arezzo in 1937 and grew up in a small village, a poor agricultural centre of fewer than 1000 souls, with 50–50 sharecropping the only form of land tenure, two latifundia, a usurer and two shopkeepers, and only one car even in 1950; now a polluted, overgrown industrial centre. I had a classical education. My interest in economics was generated by both personal and social circumstances. My father—a teacher and journalist—was a small landowner financially ruined by post-War Italian hyperinflation (he honoured a pre-war debt as if it were indexed, which it was not, while his savings were decimated by inflation) and by the pig cycle. I still remember his astonishment when, many years later, I explained to him the cobweb theorem. A self-supporting student of Law, at Rome University in the mid-fifties, I got in touch with Danilo Dolci, a practitioner of self-help and non-violent action for civil rights, working in Sicilian mafialand. A stay in Palermo and Trappeto in 1958, and the sight of road-building by voluntary workers asserting their right to work guaranteed on paper by article 4 of the Italian Constitution, made a great impression on me. Helping to organise and attending a Conference on “Planning from below” arranged by Dolci in Palermo did the rest, i.e. gave me the motivation and contacts to do my degree dissertation in development economics and to get a research post with the Inter-Ministerial Committee for the Development of Southern Italy. The job took me to field visits throughout the Mezzogiorno, with a team whose task was identifying suitable locations for concentrating industrial infrastructures, following the “growth poles” approach of Albert Hirschman, Gunnar Myrdal and Francois Perroux. This early personal and social background vaccinated me for good against economic theories relying on malleable capital, voluntary unemployment and rational expectations.

Graduating “cum laude” I was placed in a queue for a Bank of Italy scholarship to study abroad. Waiting to go to Cambridge, England, I