

Imagined Economies

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In this paper, I will consider the politically and socially contested nature of economic claims. I will argue that economic interests are not given by "objective" information, but are instead a function of the interaction between socially held ideas and data, in particular institutional contexts. This discussion will provide insight into how social, political, cultural, and historical factors shape economic interests. And, by focusing on particular institutional contexts, I also hope to shed light on how we are to understand the issue of area-specific, or Russian, interpretations of the economy.

Constructed Economic Interests

In discussing the social construction of economic interests, I am explicitly focusing on information and how social and political actors make sense of data. I will outline three arguments about economic information which I think are essential to a discussion of how actors understand the economy. The first is that de-essentialization of information has already occurred in almost all areas of the social sciences, except with regard to *economic* information. The development of studies of nationalism serves as an instructive example, and I will briefly discuss it below. A second claim is that

there are *multiple, legitimate*, interpretations of data or economic information. This entails a discussion of the infinity of data and the need to select and filter information. And finally, given the possibility of multiple, legitimate interpretations of information, I will discuss how the process of constructing economic interests entails the activation of ideas about the economy in a particular institutional context.

The constructed nature of social facts has long been an area of scholarly interest. Nationalist movements can no longer be explained by "ethnicity" because scholars of nationalism have long ago undertaken the investigation and de-essentialization of ethnic identity and have convincingly historicized the construction of ethnicity, showing it to have imaginative, non-biological origins. In a similar vein, I argue that as ethnic solidarity is an important social force weakly connected, if at all, to biological facts, so economic claims may have a powerful impact on political life even if they are only weakly connected to "objective" economic facts. The fundamental argument that I make in opposition to others who would treat the economy as a separate, *objective*, sphere of knowledge, is that economic structure and economic conditions are under-determining of economic interests; to put it in the language of other contemporary debates, economic advantage and disadvantage are as imagined as nations.

There may be resistance to accepting the concept of an imagined economy because whereas economic claims are largely treated by scholars as simple reflections of observable objective facts, ethnic, linguistic, and cultural demands are approached as historically constructed phenomena involving interpretation, institutional contexts, and particular actors.¹ But, as I show below, I think this divide between economic and other

information is untenable both theoretically and empirically. As a discipline, economics has made almost no contribution whatsoever to the debate over objectivity versus subjectivity. By assuming objectivity not only amongst analysts, but amongst local economic actors as well, economics has been unable to address the issue of multiple, legitimate understandings of particular phenomena, or in other words, the construction of meaning. In a nutshell, I think we need to follow the lead of constructivists in studies of nationalism, by naturalizing critical discussion of the formation of not just political, but economic interests.

A constructivist theory of economic interests must begin by critically examining economic data or information. However, what strikes even a casual observer is the availability of a tremendous amount of information about the economy from a variety of sources. For most issues, the problem is not a lack of information, but rather an overabundance of information. This brings up the related issue of how to select and make sense of such information. In economics, this problem of too much information was recognized decades ago by economists such as Herbert Simon and Joseph Stiger.²

However, according to an objectivist position, information about economic reality is readily accessible to rational actors, and individual understandings simply reflect the real economy or at least the available information about it. The question of the origins of economic interests is rarely discussed because economic interests are assumed to arise directly out of economic conditions. This objectivist position is the dominant starting position of nearly all economic studies.

Everything from statistical compilations of the World Bank to micro-level accounts of individual investment activity accepts, consciously or not, the notion that economic information, once discovered, has objective and universal meaning. This is not to say that economists think that objective economic data are easy to come by; on the contrary, raw data are almost always considered imperfect, and it takes careful and concerted efforts (including international standardization) to arrive at data sets which can be considered to reflect real economic conditions. But, the cleansing of raw data does not imply that multiple *legitimate* understandings of economic data exist; rather, it implies that some effort is required in the process of discovering objective economic information. The simplicity of the objectivist position means that analysts of economic data need only focus on the collection of information, rather than on interpretation.

However, a crucial yet inadequately addressed problem in examining the role of economics in politics is that economic conditions are themselves subject to widely differing interpretation among scholars and economists as well as local actors.³ In the Soviet case, different ways of transferring funds, the complexities of the tax system, as well as multiple sensible economic strategies and measurements of economic data have been explicitly outlined.⁴ Nevertheless, the use of this kind of evidence has been limited to arguments about how *scholars* can produce different understandings of economic data depending on how and what they choose to measure; the evidence remains a methodological point. I argue that the fact that economists differ in their assessments of local economic conditions should be taken into account in explaining the economic understandings of local actors.

Nevertheless, we should be clear that the recognition of the infinity of possible data to analyze is not an invitation to resignation; rather, it compels the acknowledgment that individuals as well as economists must employ some selective evaluative schema by which to make sense of the economic world. In other words, understanding cannot come from the objective replication of unordered bits of empirical reality.

Moreover, we need to move away from the idea that there are true and false interpretations of economic conditions. When scholars assume *objective* understanding of material conditions, variance in interpretation of conditions can only be the result of a lack of information, mistakes, or purposeful manipulation. The conception of the imagined economy differs significantly from the objectivist account in that the economy here is understood to be a set of multiple, legitimate, historically-based understandings, rather than consisting of a "real" economy and then of "false" or "mistaken" interpretations.

In accepting the idea of multiple legitimate interpretations of economic conditions, the problem of measurement takes on a whole different set of considerations. The problem is not to capture accurately the real data but to acknowledge that information may be arranged in multiple ways for particular reasons. The issue is not that outside scholars or local actors do not (or cannot) understand the economy; rather, the point is that if scholars can legitimately disagree about economic conditions, there is no reason to believe that a single set of economic understandings among local actors will arise from those multiply interpretable conditions. It should, therefore, be of great interest to analysts to learn why certain understandings of the economy become salient.

So how are economic interests *constructed*? I argue that in the process of imagination there is dynamic interaction between ideas, data, and events, in which particular understandings are activated and developed in response to certain experiences, and those understandings then themselves become the fuel for further action. In this sense there is no set of fixed economic interests (either corresponding or not corresponding to objective accounts) which causes action as soon as exogenous events, such as an institutional opportunities, lower the costs of such action. Rather, my analysis suggests that, where possibilities exist for rethinking political and economic categories, the activation of certain ideas about the economy through the experience of attempting various actions within a given institutional context *creates* "economic interests" in support of particular kinds of political actions.

Area Studies and Economic Understanding

In addition to giving us insight into the formation of economic interests, the concept of imagined economies also speaks to the debate over area specific or contextual versus universal knowledge. I will consider this idea of regionally specific understanding by briefly discussing three issues. The first is local views of the economy; here I am using local in the sense of views which do not appear to be universally shared, and especially by outside analysts. The second issue related to area-specific knowledge is the institutional context. In my concept of imagined economies, the particular institutional context plays a crucial role in activating particular ideas and the formation of interests. Finally, I want to discuss Janos Kornai's concept of the system paradigm.

I think that when one looks at what local actors are "saying," either via interviews or textual sources (newspapers, journals, etc.) the assumed transparency and universality of data, upon which most economic-based theories of politics are based, does not hold up to empirical scrutiny. In a range of fields, in trying to understand the economic bases of social or political action in Russia, one cannot escape the suggestion that in many cases local actors do not see the economy in the same way as outside analysts. In other words, over and over people make statements about the economy which do not match the observations of other political elites or objectivist outside analysts. My argument is that we should pay attention to local interpretations; that is, scholars should ask how economic data and conditions are constructed by local actors and what has led to the formation of particular economic claims.

An example of local understandings (and again, I use the term "local" broadly to mean Russian-area-specific rather than universal) is found in conceptions of *barter*.⁵ It is well known now that when the Russian government tried to restrict the money supply by cutting enterprise credits, firms in Russia chose to run up debts and trade in-kind rather than either declaring bankruptcy or cutting off customers who could not pay. From the point of view of local actors, this appeared to constitute a reasonable economic strategy given the constraints of the new government's policies.

Another way of looking at this phenomenon, from the IMF perspective, for example, was that if a firm had no money, it should and would cease its operations. The IMF believed in this universal reaction to a tightening of credits from the government for a remarkably long time. It was only after several years that the IMF realized that barter transactions had become significant for both inter-enterprise

transactions (50% to 70% of industrial sales) and for federal tax payments (up to 50% of revenues at one point).⁶ A review of the IMF's (mis)understanding of why firms were choosing to run up debts and trade in-kind — which was the basis for the Fund's policy recommendations for the Russian government — suggests the great differences between universal and local understanding of economic conditions. As Woodruff notes, essentially the IMF considered non-payments and barter to be evidence that firms did not find the government's commitment to tight monetary policy credible; in other words, firms ran up debts because they expected to get inflationary credits.⁷

This IMF explanation of why firms were choosing to trade in-kind was sharply at odds with explanations given by enterprise directors. The ethnographic evidence on enterprise responses to cutting government credits provides an alternative way of thinking about barter and non-payments; namely, that it was a local, soviet inspired, response to a lack of cash money. Enterprises did not want to just shut down because of an apparent liquidity crisis, and they made use of the particularities of the Soviet payment structure (i.e. the distinction between credits and cash), and finally, enterprise directors used Soviet networks to make informal deals with trading partners, as they had in the past.

Why do local interpretations matter, or in this case, why does it matter to know what enterprise directors are thinking or why they were choosing to trade in-kind and run up debts? First, if we want to explain actions, we have to know the motivations of actors, and these motivations are based on particular understandings of economic conditions. Second, to the extent we care about policy; we can see in the IMF case that the economic policy recommendations were based on particular explanations of the

motivations of actors, which were based on assumed universal responses to changed economic conditions, and assumed universal understandings of those conditions. By considering local understandings of the economy, we see that the motivations were vastly different, and therefore explanation of actions as well as the recommendations which addressed those actions would be very different.

In addition to local understandings, the relationship between imagined economies and area studies also comes up in the issue of institutional development. Essentially, I argue that it is the institutional context which makes some ideas plausible, and some unthinkable. In this way the institutional context directly affects the construction of interests. An example is the idea of sovereignty movements: without perestroika, and the end of the CPSU, there was a very low probability of regions developing an economic interest in sovereignty in the early 1990s. And, if you take a historical institutionalist, or bottom-up, view of institutional development, then, you see that the crucial context in which interests are developed is vitally dependent on local conditions. That is perestroika is a particular institutional context; it is not a general universal institutional framework which was given to Russia; and it's only via perestroika that union republics imagine the possibility of secession. Thus you can see how local institutional contexts can affect the development of interests

Finally, on the issue of area-studies and imagined economies, I believe that Janos Kornai's idea of the system paradigm makes a very important contribution.⁸ Kornai fruitfully suggests that we have to study the economy as a system; that is, not just as a collection of discrete economic actions, but as a system made up of politics, history, culture, etc. While one might get the impression that Kornai is simply arguing

that Socialism is different from Western or other economic systems, I believe this characterization misses his main point. That is, that we need a systemic approach to economics. By bringing in politics, culture, and history, Kornai's approach, by definition, suggests an area-specific approach to the economy, insofar as politics, culture and history (as well as economics, if you accept the imagined economies approach) are area-specific. But the important point to emphasize is that it is not just that the economy alone in Socialist or post-Socialist countries is different from western economies; rather, it is that *economies in general* are political-cultural-social-economic systems and that therefore all economies have area-specific features. As is clear, this systemic approach is consistent with the imagined economies approach which I have outlined above.

Conclusion

Let me conclude by way of simply reiterating a few points for further consideration. First, I have suggested that economic interests are not always determined by objective economic conditions. In this sense, we enlarge the ongoing study of the imagination of political communities to embrace the non-objectivist generation of economic interests as part of the conception of political identities. A second point which follows from the analysis in this paper is that interests should not be considered ahistorically fixed; they are neither structurally nor primordially determined. Third, imagined economic interests must be considered in light of their precipitating institutional contexts. Finally, we need to think about the ways in which area-specific or local knowledge impacts the development interests, either directly through understanding, or indirectly through the institutional context.

¹ See for example, Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism*, revised edition (London: Verso, 1996); Ronald G. Suny, *The Revenge of the Past: Nationalism, Revolution, and the Collapse of the Soviet Union* (Stanford: Stanford University Press, 1993).

² See Herbert Simon, "Rationality as Process and Product of Thought," *The American Economic Review: Papers and Proceedings of the 90th Meeting of the American Economic Association*, New York Dec. 28-30, 1977, vol. 68, no. 2 (May 1978), pp. 1-16; and Herbert Simon, "A Behavioral Model of Rational Choice," *Quarterly Journal of Economics*, vol. 69 (February 1955), pp. 99-118; and G. J. Stigler, "The Economics of Information," *Journal of Political Economy*, vol. 69 (June 1961), pp. 213-215.

³ For evidence which demonstrates the complexity of measuring or evaluating economic conditions for the Soviet case, see Donna Bahry and Carol Nechemias, "Half Full or Half Empty: The Debate Over Soviet Regional Equality," in *The Soviet Nationality Reader*, ed. R. Denber (Boulder, CO: Westview Press, 1992); I.S. Koropecykj and Gertrude E. Schroeder, eds., *Economics of Soviet Regions* (New York: Praeger, 1981); Donna Bahry, "The evolution of Soviet Fiscal Federation," in *The Soviet Nationality Reader*, ed. R. Denber (Boulder, CO: Westview Press, 1992); Vyacheslav Seliverstov, "Inter-Republican Economic Interactions in the Soviet Union," in *Soviet Federalism, Nationalism, and Economic Decentralisation*, ed. Alastair McAuley, (New York: St. Martin's Press, 1991); and Gertrude Schroeder, "Nationalities and the Soviet Economy," in *The Soviet Nationality Reader*, ed. R. Denber (Boulder, CO: Westview Press, 1992).

⁴ For example, see Donna Bahry, "Perestroika and the Debate over Territorial Economic Decentralization," *Harriman Institute Forum*, vol. 2, no. 5 (1989), pp. 1-8; and Bahry and Nechemias, 1992.

⁵ This example is taken from David Woodruff's erudite discussion in, David Woodruff, "Rules for Followers: Institutional Theory and the New Politics of Economic Backwardness in Russia," *Politics and Society*, Vol. 28, No. 4, (Dec. 2000), pp. 437-482 (on barter, see especially pp. 458-463).

⁶ Woodruff, 2000, p. 462.

⁷ Woodruff, 2000, pp. 461-462.

⁸ Unfortunately, I am not giving it its due in this version of the paper, but I hope expand this section in later drafts. See Janos Kornai, "The System Paradigm," *Collegium Budapest Discussion Paper Series*, No. 58 (July 1999).