

# **THE PARADOX OF RESILIENCE AND EFFICIENCY**

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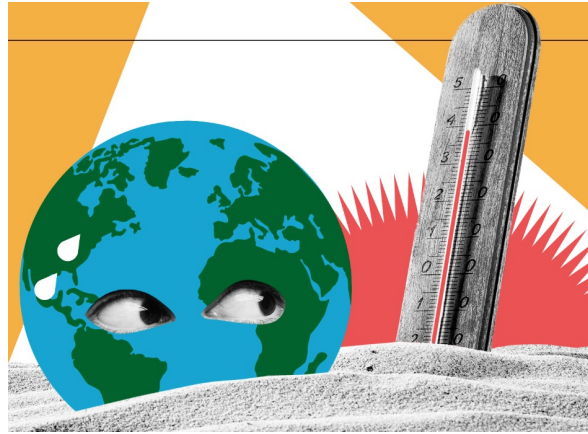
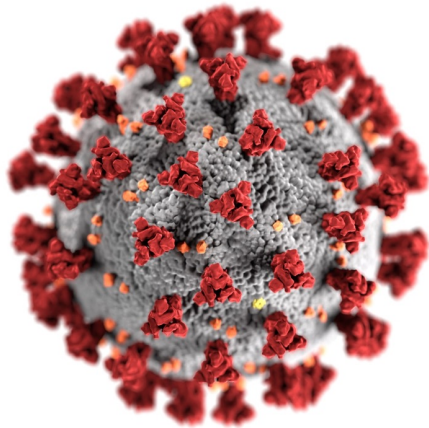
**Irene van Staveren ISS/EUR**

Efficiency



Resilience

- Efficiency as “slack in the system”



- Resilience is a systems-level characteristic which makes a complex system persist over time despite uncertainty

# Resilient institutions of commons (Ostrom)

- Boundary institutions
  - Who
  - What
  - Inputs
  - Distribution of benefits
- Diverse & inclusive decision-making institutions
  - Inclusive decision-making bodies
  - Monitoring
  - Graduated sanctions
  - Conflict-resolution mechanisms
- Redundancy institutions (buffers)
  - overlap in monitoring
  - overlap in decision making bodies

# Resilient institutions in ecological systems

- Boundary institutions
  - connectivity/isolation
  - feedback effects
  - slowly changing variables
- Diversity institutions
  - Increasing diversity in the system and in participation
  - Learning
  - Adaptive management
- Redundancies:  
elements of the system that are different but fulfill similar or overlapping functions, so that if one fails, other elements can still perform that function

# Resilience and the financial crisis

- Boundary institutions:
  - Repeal Glass Steagall Act
  - New measures (no proprietary trading; bonus cap; limits to market shares)
- Buffers
  - BIS: higher buffer requirements for banks
  - ECB: stress tests
- Diversity in boards:  
Lehman Sisters hypothesis -> more gender diversity -> more resilience

# Buffers in institutional thought

- Frank Knight: fundamental uncertainty  
-> buffers are investment in resilience where insurance is impossible
  
- Keynes:  
-> Plea for buffer stocks in food and raw materials
  
- Minsky:  
-> Plea for higher equity ratios of banks

# Boundaries in institutional thought

- Keynes: automatic stabilizers in government budgets
- Veblen: rentier mentality undermines economic resilience (Ülgen, 2017)
- Meadows & Daly & ecological economics: boundaries are necessary to prevent tipping points in climate change

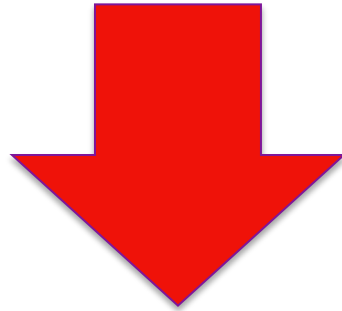
Example: max 1.5 Celcius warming implies 90% coal and 60% oil & gas need to remain under the ground (Welsby, 2021)

# Diversity in institutional thought

- Schumpeter: creative destruction is based on diversity in markets
- Evolutionary economics: diversity enables variation and flexibility (Witt)
- Ashby's law on requisite variety: complex problems must be faced with a level of diversity in approaches or views that matches the level of complexity
- Feminist economics/management science on board diversity: gender diversity has a positive correlation with firm performance
- Dasgupta: biodiversity preserves ecosystems' integrity

# Resilience in capitalism?

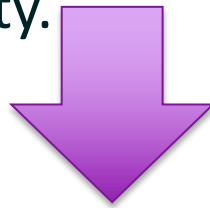
- Marx: accumulation + wage labour ->
  - Exploitation of men, women, children, nature, colonies
  - Externalizing costs
  - Short-termism



Linear efficiency at firm level  resilience

# Resilience in post-capitalism

- Not all of the market is capitalist ( $M - C - M'$ )
  - $(C - M - C')$
  - $(C - C' - C'')$
- Next to market and state is the third domain: ***the Community Economy***
- The community economy provides livelihoods through cooperation and sharing on the basis of reciprocity under conditions of uncertainty.



Stabilizing according to Veblen: the institutions of community life are stabilizing the inherent instability of capitalism (Nuno Ornelas Martins, 2020)

# Resilience in the Community Economy

## Role combination through cooperation

- Green energy coops (reduces D for energy)
- Worker coops (reduces S of stocks)
- Commons (reduces S and D in labour market; may eliminate C in consumer market)
- Mutual insurance (reduces D for insurance)

reduction of the  
*size* of markets

isolation from  
the *volatility* of  
markets

# Resilience AND efficiency in the Community Economy

- Coops, commons, mutuels tend to be succesful for their diverse members over a long time-span -> efficiency
- **Commons** (Ostrom): solve problems of free-riding and crowd-in trust and collective labour; The Netherlands: average duration 350 years
- **Worker coops** (Spear): generate participation, trust and self-help, and positive externalities for communities; Covid-19: resilient firms
- **Mutuals** (Swiss Re): efficiency advantage by reducing adverse selection and moral hazard

## Conclusion: Paradox?

- Capitalism implies a trade-off between efficiency and resilience
- The Community Economy combines the two through:
  - Long-term focus
  - Involving multiple stakeholders
- How?
  - Cooperation in role-combination which includes
    - Institutional boundaries
    - Institutions of diversity
    - Institutions of redundancy/buffers



Long-term and inclusive efficiency = resilience