

A praxeological view of Post-Soviet institutional engineering

Enrico Colombatto

Università di Torino and ICER

June 2001

Abstract

The Misesian lesson in a transition framework leads to a number of questions about the very aims pursued by individuals as they switched from the communist regime to a so-called capitalist environment. According to the answers provided, one may then understand why so many candidates to free-market experiments are now evolving towards some kind of mixed-economy system.

This paper tries to suggest the right questions by looking at the origin of the transition process in Eastern Europe. Four different theories are put forwards and analyzed.

It is concluded that the so-called transition economies did not opt for a clearly-defined institutional system to oppose to Soviet communism. Rather, transition should refer to a painful process of finding out new institutional rules apt to replace the previous order. Nationalistic feelings surely play an important role and may explain why paternalistic policies tend to be welcome.

From a praxeological viewpoint, it will be important to assess whether the present institutional framework is flexible enough to accommodate today's yearning for paternalistic policies, but strong enough to resist pressure to transform paternalism into redistribution and thereby award privileges to new rent-seeking coalitions.

A praxeological view of Post-Soviet institutional engineering

Some critical elements of Misesian economics

The Misesian approach to economics and policy-making includes two primary methodological lessons. First, economic science is meaningful only if applied to discern whether rules and agendas are appropriate to achieve predetermined ends. Discussing about the ends is far from irrelevant, of course; but it remains outside the scope of economic analysis. On the other hand, economics is rooted in praxeology¹, since outcomes are generated by human behaviour within a framework of rules and norms. Put differently, economic analysis should not evaluate the ideal purposes of legislation and policy-making. Rather, it should assess whether individual conduct constrained by given norms is compatible with - or leads to - the desired results.

Second, the only fair way to weigh the value of human action in a social framework is through the lenses of subjectivism. The consequences are straightforward and powerful. Human action is legitimate whenever it does not use violence in order to restrain other people's behaviour. Furthermore, agents are entitled to compensation for their actions by an amount equal to what other individuals are willing to forego in order to benefit from those very actions.

Unfortunately, both statements are far from being embraced in everyday policy studies and undertakings. The praxeological significance of economic investigation is by and large neglected. Although the notion of individual freedom is frequently referred to (and abused of), subjectivism as a criterion to appraise the legitimacy of human action is *de facto* ignored. On the contrary, nowadays a great deal of economic analysis concentrates on more or less refined versions of rational-maximization exercises in a static framework, whereby agents are assumed to be competing within a neoclassical setting featuring relatively low transaction costs. Hence, orthodox policy assessments tend to be focused on the comparison of the real world with a range of ideal equilibria; each of them associated with a different redistribution target and thus distinctive ethical implications.

¹ Defined by von Mises (1980, p.3) as *die allgemeine Lehre vom menschlichen Handeln*.

These exercises are sometimes useless. In most cases they are however definitely harmful. The reason is that recent model building neglects to identify the goal towards which policy action is directed. Results should therefore be disregarded as long as they provide irrelevant conclusions about the equilibrium properties of an imaginary economy. In fact they are used in order to rationalize and justify policy-making initiatives that remain highly questionable from a moral viewpoint. In other words, distorted outcomes can be - and are - made acceptable by a methodology that takes the so-called rotating Nirvana economy as a constraint and by defining the policy goal as the effort to enhance its working. Today's competition policy is a clear example. Of course, by doing so the main responsibility of the policy maker - identifying the goals and carrying out appropriate action - is reduced, whereas accountability is almost emptied of any practical meaning.

Surely, individual freedom continues to be advocated as the foremost moral value to be protected by modern democratic societies. This is certainly a major advancement with respect to the past, when romanticism and religious integralism justified the use of violence in order to promote the national advantage - whatever this expression may mean - at the expense of foreign interests². This change of attitude is by all means welcome. Nevertheless, today's understanding of individual freedom has little to do with subjectivism. The former is taken as a synonym for the freedom to vote. While the latter refers to the freedom to select and to choose, which is indeed the notion upon which free-market legitimacy is based. Put differently, the notion of fairness has today been abused in order to support interest groups looking for normative rents at the expense of weaker or less organized collections of individuals. For instance, the labour theory of value, which had killed economic science for some two centuries, has not been replaced by a view consistent with methodological individualism. But rather by some sort of a social theory of value, where the term "social" tends to be a euphemism for the preferences of the winning coalitions.

As pointed out above, Mises' principles did not affect the economic profession to any significant extent. Similarly, they hardly had an impact on policy behaviour. By and large this can be explained by Mises' failure to develop his ideas into a successful ideology³, a problem he shared

² It is slightly more problematic to reconcile the notion of individual freedom with the persistence of mercantilism. For mercantilism is still alive and kicking, both in its traditional forms (trade policy) and in its modern version (the welfare state).

³ The main reason for this failure is that an ideology is a criterion to evaluate a social system. But according to Mises (and to the Austrian School, of course) the best judge of a social arrangement is the consumer, who expresses his preferences through the market system. Hence, the evaluation of a

with the classical liberal tradition. An ideology is however crucial in order to transform theoretical tenets into an appealing code of conduct for policy makers. That is, into a widely-accepted program for policy-making and therefore into a system of rules according to which the legitimacy of social behaviour - as expressed by interest groups and their representatives - may be acquiesced to.

This failure is not surprising. By advocating economics as a social science with little room for technocratic constructivism and no justification for collectivist values, Mises (1940/80) made sure that his approach would have indeed appealed to a relatively small number of passionate intellectuals inclined to oppose rent-seeking interest groups and discretionary political powers. Unfortunately, his approach could hardly offer a *Weltanschauung* promising a better world, where the problem of scarcity would be eliminated, and thus with a strong enough message to captivate the attention and the votes of large enough crowds. In other words, by focusing on liberty and subjectivism the Misesian message emphasized the role of personal responsibilities in the social context. And by defining a social context as a system of interactions among accountable individuals, Mises belittled the role of legitimate action by social entities. He therefore ruled out the possibility that an elite could legitimately pursue a socially defined goal. In short, in the Misesian world there was no room for allegedly self-appointed ministers of the prevailing ideology.

Contrary to the tradition of the Enlightenment and of classical economics, Mises was aware that the lack of an ideological pledge to secure a world without need and suffering was bound to undermine the impact of subjectivism on future society. Indeed, this weakness explains why in practice social policy even today uses ideology as a way to do without human action. For social ideologies (e.g. nationalism) are outside the individual dimension, and are indeed instrumental in emphasizing the role of society as an entity by itself, sometimes overruling individual preferences⁴. It follows that an economy can surely be run according to free-market criteria, but only if the costs of enforcing ideologically-legitimized policies are high enough to prevent a social ideology from

social system boils down to how well the market system can work in a given social environment.

As suggested by Cubeddu (1993, p.189), the Misesian defense of the liberal "ideology" came at the wrong historical moment. In fact, only in the 1960s could his argument make the object of serious discussion.

⁴ Incidentally, disregard for human action allows so-called partial-equilibrium analyses - say the economics unemployment, of investment, of money (each of them taken separately). These kinds of exercises would be impossible within a Misesian framework, which emphasizes the role of a comprehensive view of individual behaviour.

coming to the surface and prevailing. This is hardly the case in modern societies.

These introductory comments also apply to recent history in the so-called transition countries. In particular, they may help understand why such countries started out as clear candidates for free-market experiments led by enlightened principles and are now evolving towards an updated version of socialist economics, given democratic constraints. To these aspects are devoted the next paragraphs of this contribution.

On the nature of East-European transition

When applied to the former Soviet bloc, the term transition normally refers to a clearly-defined passage, from a given regime to new rules of the game. In particular, two features are usually taken for granted: that transition has been (and is) a spontaneous phenomenon shared by the vast majority of the agents involved and - second - that the social organization to be generated by the transition process is exogenous: known in advance and therefore outside the scope of the debate. Facts have shown that in the case of central and Eastern Europe these hypotheses do not rest on firm ground⁵. Still, they have been far from innocent from a normative viewpoint.

If acceptable, spontaneity has two important and somewhat delicate implications. First, it is no longer necessary to question where transition is heading, since the very (spontaneous) features of the transition process justify the legitimacy of the goal. This means that one is induced to overlook the fundamental questions about the moral content of transition, i.e. about the principles that legitimate transition and thus the adequacy of the policy actions that are carried out in order to obtain the shared purposes. In addition, the notion of spontaneous change, away from communism towards a loosely identified "better society", possibly characterized by regulated capitalism, opens the way towards all sorts of experiments in free-market constructivism.

Spontaneous transition is a relatively safe assumption if a large component of the population shares a strong-enough ideology, and relies upon it to oppose the moral underpinnings of the incumbent regime⁶. For instance, revolution against a totalitarian leader is easy to explain by referring to a popular longing for democracy and - more important - to the unfairness of a system

⁵ As will be argued later on, the only (partial) exception may have been Poland.

⁶ Consistent also with Mises' view, "moral" does not refer to "good", as opposed to "bad". Instead it concerns the claim to legitimacy to establish and enforce rules with the purpose of enhancing social behaviour. In turn, social behavior is based on praxeology and thus on individual preferences.

that promotes the concentration of wealth and discretionary power to the exclusive benefit of a small totalitarian elite.

Now, when the reality of Eastern Europe is taken into account, the spontaneous approach to transition makes little sense, unless this term is called upon in order to describe the relatively peaceful collapse of the communist regime at the end of the 1980s. But of course, a description is not quite the same thing as an explanation. And the very fact that Eastern Europe has been experiencing widespread frustration about transition, without much consensus about what should have been done and when, justifies some consideration as regards what the rejection of collectivism really meant. The following pages will rely heavily on Misesian methodology in order to offer some praxeological arguments on these issues. The origins of the collapse will thus be reviewed, so as to shed new light on the moral content of transition and the legitimacy of the policy-action programs adopted by the new East-European leaders.

There exist at least four theories about the origins of the downfall of the Communist regimes in Eastern Europe.

- * One focuses on the domestic political weaknesses of the Soviet regime, as a consequence of which the East-European satellites broke loose.
- * A second one emphasizes the economic weaknesses of the centrally-planned economy.
- * A third conjecture underscores the role of the Catholic Church, while
- * A fourth hypothesis calls attention upon the self-defeating recruiting system of the ruling elites in the Soviet bloc⁷.

Surely, these are not necessarily conflicting theories. Indeed, there are very good reasons to believe that they all to a degree contributed to the end of Communism in that part of the world. But it seems nevertheless preferable to investigate the importance of the various elements separately, so as to emphasize their praxeological roles and thus bear different weight onto the legitimacy of institutional change and of policy-making in particular.

Political crisis

⁷ Other theories emphasize the role of President Reagan and of the so-called star-war race, and also the role of human rights activism (Helsinki 1975). They have been here neglected for the main issues they raise can be easily viewed as analogues to the other arguments.

According to the political argumentation, the crisis of the whole Soviet system originated from the fight for power that took place in the Soviet Union after the death of Brezhnev (1982). The basic assumption is that the USSR regime was certainly totalitarian, but that after Brezhnev it ceased to be a one-man dictatorship. The Party was no longer the monolithic organization shaped by Lenin and Stalin.

At the beginning, the outside repercussions due to the internal political frictions were modest. Economic and political freedoms remained restricted; while consensus for a highly centralized system continued to prevail, perhaps for fear of an uncertain, possibly chaotic future. Or - more likely - because the extended nomenklatura system offered enough safety and guaranteed privileges (rents) to a large enough share of the population.

If true, this picture implies that very many USSR citizens did not have a strong interest in changing the rules of the game radically and had relatively modest ambitions to improve their material living standards⁸. In short, people's concern for political freedom was not of the utmost importance. This may be regrettable, but hardly surprising. History shows that freedom has seldom topped the list of priorities of the majority of the population⁹. The economic inefficiencies of the Soviet world were of course perceived as enormous and manifest. But the waste was so evident that a reformed communist regime was deemed to be adequate to provide a satisfactory answer to the desire for better material living standards, even if inferior to Western levels.

Andropov's approach to the economic problems of the country seemed consistent with this interpretation. During his premiership the central role of the Communist Party remained unchallenged, while attempts to improve economic performance focussed on the fight against corruption and efforts to inject energetic leadership. The idea whereby the average Soviet and East-

⁸ The reference to the "material" living standards deserves some explanation. It is often overlooked that people attribute different importance to the various elements that contribute to shape individual living standards. For instance, in the recent past a substantial number of people have decided to take advantage of higher productivity levels and of the welfare state in order to reduce their working hours, sometimes to zero. This situation is generally known as voluntary unemployment. Their choice clearly reveals that their living standard is higher than in a situation characterized by higher monetary income, higher consumption of marketable goods and services (i.e. "material" living standards), but also greater working efforts and less leisure.

⁹ As is known, the longing for freedom (and democracy) dates back to the classical world (see Jay, 2000, ch. 2 for a short survey). But both notions were restricted to a relatively small portion of the population.

European citizen longed to attain the kind of division of labour and meet the accountability requirements that the capitalist mode of production entail never seemed to be considered as a serious solution to the Soviet problem, not even by the dissidents.

As a matter of fact, the political thesis maintains that the Soviet system collapsed by accident, almost against the will of the Soviet population. This sounds plausible. For the effects of Gorbachev's rise came to a large extent unexpected¹⁰. Gorbachev followed the sudden death of two leaders - Andropov and Chernenko - who were more or less in line with the tradition of Soviet politics and did not seem to be striving to change the political geography of the world in a few months. He rose to the top because he had the necessary energy and cleanliness to handle the transition from the old guard to the reformers within the Party; and to reconcile the role of the Party with that of the nomenklatura, the former having lost much of its historical control on the latter. In other words, Gorbachev was not expected to deviate from orthodoxy to any significant extent¹¹. Thanks to his leadership, and consistent with the tradition of Brezhnev, the Party was confident it could preserve and enhance its power, play the leading role in ferrying the regime towards an improved planning system, monitor the efficiency and allegiance of the industrial nomenklatura.

As it turned out, Gorbachev adopted a shock-therapy approach to the political problem and tried to delegitimize the nomenclature by breaking the informal rules of the game. But by delegitimizing the nomenclature Gorbachev in fact gave power to the local centers of power - outside the standard nomenclature, but not necessarily to the benefit of the Party. As a consequence, the Soviets suddenly found themselves without the customary points of reference. The nomenclature was no longer there to run what was *de facto* already a highly de-centralized structure. Some version of capitalism was the only available workable solution left. The price to be

¹⁰ As Brown (1996, ch. 1-3) makes clear, however, the rise of Gorbachev to power was not at all unexpected. Indeed, he was a protégé of Andropov's and already a credible competitor in 1984, when Andropov passed away. It is no accident that when Chernenko died, the appointment of Gorbachev was little more than a formality. But as Arbatov said, *it would have been quite another matter if [the Politburo] had known what kind of policies Gorbachev was going to pursue both domestically and internationally* (quoted from Brown, 1996, p.81).

¹¹ In particular, whereas Andropov had realized that something had to be done, Chernenko was a typical representative of the Brezhnevian political generation, highly corrupt and contrary to any attempt to reform the system. But none of them envisaged radical institutional changes. At the beginning not even Gorbachev could afford challenging the central political and economic role of the Party.

paid was however extremely high, for the boundaries between capitalism, local command systems and criminal rule became thinner and thinner¹².

Economic crisis

Others have argued that the system collapsed mainly because of its poor economic performance. Failure to grow provoked widespread discontent and forced the leaders to change the system or just step down and allow the reformers to take over.

The main objection to this approach is that poor economic performance is an absolute concept, whereby human behaviour is always a process of comparison and selection (Mises, 1949/1963). Poor economic performance justifies change only if compared with supposedly superior alternatives. It follows that if one believes that economic crisis was responsible for the collapse of the system, then it is implicitly assumed that over the 1980s preferences changed; or that the existing economic system failed to deliver the implicitly guaranteed minimum living standards. If so, the political leadership would have indeed been forced to enforce radical change.

Nevertheless, the evidence concerning the alleged change of preferences or the breach of contract is mixed. If one looks at the whole Soviet bloc, it is undeniable that living standard had been stagnating during the last two decades before the downfall. Furthermore, increasingly easy access to Western information might have had a significant influence on the younger layers of the population, which may have matured different preferences and different minimum-income requirements than their elders. Finally, elderly people in some Eastern European countries might have looked back with some nostalgia to the times preceding the Soviet invasion.

Then, if the communist rules of the game really became unacceptable during the Eighties, one should have noticed growing unrest and demand for change all over the bloc, especially in those areas where economic decline was more prominent or where exposure to Western living patterns more marked. Still, this did not happen to any significant degree, with the exception of Poland; and even there, economics did not play a very prominent role.

Surely, one could still conjecture that the local policymakers were shrewd and far-sighted

¹² According to Boettke (1993), however, Gorbachev was only interested in the redistribution of power within the elite, in order to strengthen his own position. He had no intention to change the system. But he did not understand that the Soviet economy was a cartelized economy. By breaking up the cartel he created the demand for a truly market system which he failed to deliver.

enough to anticipate turmoil; and change the rules of the game before violence could break out. After all, it is preferable to be the leaders and rule-makers of a transition process to come, rather than the victims.

The case of the Soviet Union does not support this prospect, though. As late as the mid-1980s, a new and far-reaching approach to reform was not yet a feasible answer to an allegedly widespread demand for it. Indeed, a large part of the political elite sitting in the Kremlin was not even dreaming of it; not even the radical wing of the Supreme Soviet¹³. They eventually realized what was happening only when it was already too late to react and switch into reverse gear. That is, the leaders were not in command of what was happening, even less were they thinking years ahead and masterminding the process accordingly¹⁴.

On the role of the Catholic Church

The only area where turbulence was serious throughout the Eighties (and also earlier) was Poland, where the Catholic Church played a crucial role in opposing communism. Indeed, Poland was probably the only communist country where the religious authorities did not seek compromise with the regime and stuck by their claims to influence individual ethics, even when this clashed with the socialist dogma. Of course, efforts intensified after the election of a Polish Pope and the mild *Ostpolitik* of Pope John XXIII and Paul VI was abandoned.

The political strength of the Polish Church goes a long way back in Polish history. Among its most relevant features, its century-deep association with the Polish national ideal stands out as particularly important. This very ideal made the country a Western power and the Church its main symbol; even in the darker periods of partition and of Austrian, German and Russian occupation. In more recent times, the Church made sure that the myth of a free Polish nation was never sacrificed to the ideal of a communist society. And when Pope John Paul II showed that communism dogmas could be challenged openly (1979 pilgrimage), the conditions for a cultural revolution were realized. Opposition gradually became stronger and spread among vast layers of the population.

¹³ Gorbachev himself realized only two or three years later the full extent of the consequences of the process he had started in 1985.

¹⁴ This was partly due to the ability of Gorbachev, who initially went a long way in reassuring the corrupted hierarchies about their long-lived immunities; and the Party structure about its ongoing guiding role within the reformed system of the late 1980s.

Legitimacy for the regime eventually vanished when the Polish Army used violence against the Polish population¹⁵, irrespective of what was happening in the USSR.

By and large, two conclusions can be maintained. First, the role of the Catholic Church was peculiar to Poland and limited to that country. In no other area of the Soviet bloc religious influence was deep enough to oppose the incumbent regime and to offer people a consistent and clearly discernible behavioural pattern different from *homo sovieticus*. Although Polish unrest showed to everybody that the Soviet authorities were no longer able or willing to crush opposition to the regime in the Seventies and Eighties, the strength of the catholic ideological message did not go much beyond the Polish borders. And therefore did not inspire reactions similar to what was to be observed in Poland. In particular, the message did not make a strong impact in Russia.

Second, the different ideological environment of Poland shows how important moral standards can be when regimes run into difficulty and have lost their original ideological or military thrust. The Church was strong because it never compromised with communism and focused its action on human dignity and Polish patriotism. Cardinal Wyszynski and Pope Wojtyla played in Poland a crucial role, for they showed that one could stand up to the regime. But their action would have not been understood outside Poland. If Gorbachev had not destroyed the Party, the regime would have not collapsed in the Soviet Union.

The change of preferences and the dynamics of pressure groups

According to the last thesis mentioned here, individuals' interests in a collectivist society change as the outside world evolves. For instance, a group of people in a primitive society does not perceive specialization as a priority, since there are very little opportunities to exchange goods and services. On the contrary, in a highly integrated world market economy those prevented from trading and specializing according to price signals suffer relatively high opportunity costs. Therefore, as the outside conditions change, the probability rises that latent coalitions strive to change the system and take advantage of the opportunities that are now available. As we know from Olson (1965), in a democratic regime these coalitions succeed in becoming active pressure groups

¹⁵ See Weigel (1992) for a full account of how the Polish Pope succeeded in awakening Polish national emotions, in emphasizing the contrast between the values fostered by the Soviet ideology on the one hand and the cultural roots of the Polish nation on the other, in transforming compliance into a bloodless revolution.

when they solve the free-rider problem; whereas in a totalitarian system this happens when they manage to be co-opted by the incumbent oligarchy. This may be the outcome of an occasional mistake by the incumbent elite. In other instances the challengers may have bought their way in. These issues have already been discussed elsewhere and need not be analyzed further¹⁶.

Alternatively, systemic change results from rather mechanical processes, whereby political structures were rational when they were originally conceived, but turned out to be outdated and even counterproductive a few decades later. From this last standpoint, which relies heavily on the notion of path-dependence, Soviet communism was bound to fall apart because the interest groups that were guaranteeing its survival changed their perception of their own common interest. Thus, they took an active part in changing the regime¹⁷, not only because they wanted to anticipate revolution, but rather because they had themselves a strong interest in abandoning the old centrally-planned economic system, based on strict political control. Apparently, the shock came during the Brezhnev years, when the leader was strong enough to control political dissidence, but not to control corruption and stop the development of a large underground economy run by and to the benefit of the top nomenclature. As a result, by the late Eighties, the Party was no longer able to discipline the underground economy, whose beneficiaries became virtually unaccountable.

Summing up

Following the discussion so far, it is plausible to claim that the origins of the collapse of the communist regimes in Europe were mainly of a political nature. The ideological issues that had been set aside with terror and dogmatic orthodoxy in the Soviet Union since the time of Lenin and Stalin came to the surface as soon as it became clear that deviations from the dogma were tolerated and even encouraged.

As regards the USSR, Gorbachev initially believed that reforming the Communist Party could solve the problem of economic stagnation. He then went on to weakening the Party and to

¹⁶ See Colombatto-Macey (1998).

¹⁷ According to Ferrero (2001), this is true for Soviet communism, which was based on ruling elites based on median or mean constituencies. On the contrary, in other countries - e.g. China and Vietnam - power rested on modal constituencies who never relinquished control of the large state companies. This was the essence of the mobilization regime, which has made sure that consensus for the incumbent regime has remained substantial.

breaking its control on the economic system, to the benefit of the periphery. But when the time came for him to establish rule of law, while enforcing privatization and liberalization, his personal charisma had become opaque. Peripheral powers widely understood were strong enough to avoid re-centralization. Attempts to transfer economic powers from the peripheral political elites to the market were successfully paralyzed. As a consequence, institutional change from the center could no longer be realized. Corruption and the informal institutional structure that had been accompanying the underground economy stayed intact; perhaps even expanded.

The economic system was however still one where orders had to come from the center, in order to keep it in equilibrium (in the Hayekian interpretation of the word). When the center lost the power to enforce orders, economic stagnation turned into economic decline. Chaos broke out - and among other effects - it contributed to the comeback of "nationalities" as the central political problem of the country.

As regards the satellite countries, foreign military oppression was perceived to be the main question. The threat to national identity was felt at various degrees in the various countries, following culture, history, possibly expectations. Of course, when this identity included both nationalism and religion, tolerance was lower, as the case of Poland shows. When Soviet military commitments vanished, the regimes took new shapes following - and by referring to - the perceived nationalist and religious values. The splitting of Czechoslovakia is perhaps a fitting example.

In short, what argued so far leaves very little room to maintain that free-market ambitions had something to do with the downfall of the Soviet regimes in Eastern Europe. The consequences of this conclusion will be analyzed below.

Praxeological implications

The analysis of the origin of transition shows that different countries pursued hard-to-define objectives - national identities was fairly common throughout the bloc, human dignity in Poland, resistance to centralization in the Soviet Union, oligarchic power in some other countries. The only element shared by the whole bloc was the downfall of the Communist Party in the Soviet Union, and therefore of the organizational structure through which a tyrannical system could impose its will upon different nationalities and different national states. With the exception of Poland, the undoing of the regime was almost accidental, in that it depended crucially on the political horizon, intelligence and charisma of one man - Gorbachev - who had the courage to begin a dangerous

discovery process that led him to the heart of the communist dogma and then had the intellectual honesty to change his beliefs during his rise to the top of the political ladder. In the end, he destroyed the system while trying to save it from agony. For this very reason, it is sensible to claim that transition never started, for the downfall of Communism was not a choice. Rather, it was a welcome gift for most; a betrayal for many.

Put differently, the process of selection and choice implies that agents have a list of alternatives. This was not the case in Eastern Europe. With the possible exception of the GDR, it would however be hard to claim that the so-called transition economies (including Poland) decided for a clearly-defined institutional system to oppose to Soviet communism, and that they rejected communism in favour of a chosen alternative as soon as they had the opportunity. Instead of starting a "transition" path, most of these countries actually embarked upon a painful process of finding out new institutional rules apt to replace the previous order. As Winiecki (2000) has recently pointed out, in all the transition countries privatization and entrepreneurship were conceived as a top-down process, whereby old state-owned giants were to be transformed into nimble private companies. The possibility of witnessing a bottom-up process whereby new firms would replace old firms was not given much weight. The discovery process was to be carried out by the central authorities according to constructivistic patterns. The very rise of a new class of entrepreneurs in a truly competitive setting was an option to be considered (with great caution), not the only obvious solution.

At the same time, it would be equally misleading to claim that failure to choose created chaos, or that the destruction of communism left a vacuum filled by roving bandits and puppet rulers. Two elements should be considered on this matter.

First, the collapse of the Party took place in the Soviet Union after other centers of political power had come to the surface. Although the former communist nomenclature did not form the backbone of newly-formed political parties, they ended up by heading technical (i.e. unaccountable) central ministries, or by strengthening local bureaucratic systems. Their legitimacy turned out to be correlated to their ability both to reduce accountability *vis-à-vis* the center and to extract privileges from the center (such as tax relieves, protection against potential competitors, subsidies). In this light, it appears that confusion and contradictions had virtually nothing to do with transition or with failure to choose. They were the outcome of a confrontation between power centers, which the constitutional system was unable to solve, and whereby no competitor had enough muscle to

prevail. Although this situation was typical of the Soviet Union, other countries experienced similar phenomena as well¹⁸.

Second, in many instances the simmering problems of nationalism and nationalities played an important role. They contributed to strengthening the rise of peripheral powers mentioned above, so that the lack of totalitarian rule was often replaced by nationalism as the common element of the social fabric¹⁹. Economics played a secondary role. That does not necessarily mean that nationalism will be a long-lasting moral justification for rule of law and Hayekian equilibrium. But it does imply that all attempts to understand change after the collapse of Communism would be vain if nationalistic ideologies are ignored. And it explains while free market in Eastern Europe is accepted only to a degree, i.e. up to the point where free-market principles conflict with the perceived national interests and identities.

Put differently, the East-European countries have been facing a range of questions that went well beyond the problem of selecting an appropriate economic order; that is, of choosing between planning and free market, as some naive commentators have suggested. For the choice of an economic order depends heavily on the shared social system, an issue that can hardly be solved by *fiat* through the top-down imposition of a perfect routine or of a consensus-maximizing compromise.

¹⁸ Among other things this helps understand why - *ceteris paribus* - small countries have a better chance to speed up the process geared at creating or perceiving a stable institutional framework. Unlike large economies, in small countries peripheral powers are too small to oppose the center; unless communication and infrastructure are poor, and educational standards very poor, decentralized leaders in small countries have no chance of preserving their powers unless they cooperate with the center.

¹⁹ The emphasis on the term totalitarian is important. As pointed out in Monti Bragadin (2001) this notion dates back to 1925. It was invented by Italian fascism to suggest that the regime founded by Mussolini was to unify the country through shared values, rather than violence. In particular the Party was not meant to be the tool through which the elite would impose its will upon the masses, but the instrument through which the masses would unify under a common ideology. Hence the reference to "totalitarianism".

The problem with Italian fascism was that this political goal turned out to be contradictory. For an ideology almost necessarily must contain elitarian principles. Fascism solved the problem by creating a set of images, a pseudo-ideology based on myths. When the shock came (June 1940) the lack of ideology led to collapse.

The Soviet-style Communist parties ran into a similar problem when Gorbachev decided to turn the Party from an elitarian structure into a totalitarian institution (mid-1980s). The destruction of an elitarian ideology led to political democratization and thus to the end of the regime.

Hence, the relevant praxeological question in Eastern Europe concerns how fast and in which way people will be ready to abandon moral standards based on principles of national or ethnic identity. Acceptance of the subjectivist ethics is by no means granted, not even in Poland. For instance, EU membership would be an important incentive to move from the guarantee provided by a nationalistic ideology to the safety of a continental welfare state.

Oddly enough, no theory of short-run praxeological transition has been put forward²⁰. Despite this clear failure by social scientists, it should be manifest that free-market institutions as such have little or no legitimacy in the post-Soviet world. The rather disappointing economic performance of those countries in the past decade proves it beyond reasonable doubt. The better results displayed in some areas should not mislead observers. Such results do not show that market-oriented reform works. That is beside the point, for subjectivism always works, by definition. The crucial questions are elsewhere. On the one hand, we should ask ourselves whether such relatively satisfactory results are truly generated by praxeological change, rather than by smaller rent-seeking pressures (see the small-country case mentioned earlier). On the other hand, one should investigate what triggers the substitution of the nationalistic ideology in the various countries; and what the substitute is. Obviously, the answer will also bear on historical and cultural variables.

For this very reason, it is apparent that a generalized normative approach and conclusion would serve the cause of constructivism; much less the purpose of acquiring knowledge and using it. Today the only kind of institutional engineering one would like to see is one praxeologically neutral. That is, one which does not aim at shaping individual preferences by emphasizing the role of the political process as a way to acquire consensus. This would be at odds both with nationalism (which is based on consensus, rather than on the attempt to find compromise) and with free market ideals (for obvious reasons). Unfortunately, this is instead what we witness as a consequence of ongoing Western exercises in institutional engineering. Contrary to what occurred in other historical moments, these exercises do not necessarily lead to a clash between formal and informal institutions. In many cases neither are really defined. But they would certainly interfere with praxeological change. The effect will be neither economic disaster, nor political instability. When these apply, other sources should be held responsible. But opportunities will be missed, the

²⁰ See however Hayek (1952) for an attempt to lay the theoretical foundations in this domain, at the border between economics and psychology. And also Quigley (1961/79) for an early long-run analysis of the praxeological dynamics of elites.

incentive to accept responsibilities will be reduced, and resistance to the illusion of the welfare state will subside.

Conclusions

There is little doubt that if the object of systemic change in the Soviet bloc was to be transition to democracy and to market economy, it failed on both accounts. The basis of democracy is the rule of law, which necessarily implies very limited state intervention in the economic sphere, as regards both (state) ownership and redistributive policies. Hence, although transition economies are indeed market economies according to the meaning Mises attributes to this term²¹, they surely do not work according to market principles.

On the other hand, with the exception of catholic Poland, where human dignity was revitalized before the downfall of Communism, transition has achieved indisputable success in awakening the sense of individual responsibilities in the Soviet bloc. Even among those individuals who deliberately refuse to accept responsibilities and end up by advocating an all-comprehensive paternalistic regime. Indeed, the ongoing success of former communist parties in Eastern Europe does not answer a demand for central planning and totalitarianism, but rather for paternalistic conservatism. From an economic viewpoint, this implies that transition has now allowed scholars to ask meaningful questions about the praxeological adequacy of post-Soviet policy-making.

The answers in this respect are however still mixed, perhaps even confusing. If one understands transition in the formerly Soviet Empire as an attempt to accomplish a neoclassical reform, then post-Soviet policy-making has been a double failure. Both because neoclassical reform is inadequate to obtain free market, and because neither free market nor neoclassical institutional engineering were compatible with the preferences of the agents, presumably more inclined towards paternalism. As discussed earlier on, the notion of spontaneous transition was the tool through

²¹ According to von Mises a market economy is one that is open to price signals and relies upon such signals for its working. This does not necessarily mean that market signals are correct. In other words, a market economy may well be far away from a "free-market ideal. For instance, price signals can be distorted by government interference, both when it imposes taxation and when it transfers resources to industries, single companies, individuals.

The case of a free or distorted market economy is opposed to that of a planned economy, where price signals are totally absent. Prices are used only as units of account to transform physical quantities into homogenous magnitudes.

which constructivism was legitimized. This sounds paradoxical. It becomes however clearer when one recalls that the Soviet system fell apart almost accidentally, if one may call Gorbachev and Pope John Paul II "historical accidents". Unfortunately, bloodless collapse and historical fortune have been subsumed under the term spontaneity, with the consequences mentioned above.

In this light, perhaps more relevant questions of praxeological relevance remain open to investigation. For it is crucial to assess whether the present institutional framework is flexible enough to accommodate today's yearning for paternalistic policies, but strong enough to resist pressure to transform paternalism into redistribution and thereby award privileges to new rent-seeking coalitions that have little to do with paternalism or with broadly undefined free-market principles.

Some concern in this direction seems justified. Ten years of social engineering have changed the system in such a way that discretionary power remains high. Contrary to the communist system, the Party no longer runs the economy, but it is still true that the political leadership enjoys high discretion as far as the rules of the game are concerned. Given the role of nationalism and paternalism this is not necessarily a negative element, in that centralized power is the only mean to provide guarantees in such domains. The main problems with the present institutional settings is that it seriously reduces the possibility of taking advantage of the praxeological change occurring in the post-Soviet bloc. As individuals enhance their knowledge and become aware of new opportunities, their preferences and their behaviour change. To some extent this has already taken place in the past decade, especially among young people. The question thus remains without an answer. The current system was designed to bridge the gap between an old system incompatible with the incumbent praxeology; and a new system with more or less unchanged praxeological patterns and unknown institutional preferences. Hopes for neutral rules apt to take into account the new preferences have turned out to be misplaced. Indeed, there is reason to believe that a new round of constructivism might create new myths, but will not necessarily accommodate the needs of new generations of individuals.

References

Boettke, Peter J. (1993), **Why Perestrojka Failed**, London and New York: Routledge.

Brown, Archie (1996), **The Gorbachev Factor**, New York: Oxford University Press.

Colombatto, Enrico and Jonathan Macey (1998), "Transition as a bargaining problem", **ICER Working Papers**, n. 20.

Cubeddu, Raimondo (1993), **The Philosophy of the Austrian School**, London and New York: Routledge.

Ferrero, Mario (2001), "Political exchange in mass-party regimes and the transition from socialism", **unpublished**, Alessandria: University of Eastern Piedmont.

Jay, Peter (2000), **The Wealth of Man**, New York: Public Affairs.

von Hayek, Friedrich (1952), **The Sensory Order**, Chicago: Chicago University Press.

von Mises, Ludwig (1980), **Nationalökonomie: Theorie des Handelns und Wirtschaftens**, München: Philosophia Verlag (originally published in Geneva: Editions Union, 1940).

von Mises, Ludwig (1963), **Human Action**, San Francisco: Fox & Wilkes, in cooperation with the Foundation for Economic Education (originally published in New Haven: Yale University Press, 1949).

Monti Bragadin, Stefano (2001), Liberalismo e Totalitarismo, **Templeton Foundation Seminar**, May, School of Economics, Turin University.

Olson, Mancur (1965), **The Logic of Collective Action**, Cambridge: Harvard University Press.

Quigley, Carroll (1979), **The Evolution of Civilizations**, Indianapolis: Liberty Fund (originally published in New York: Macmillan, 1961).

Weigel, George (1992), **The Final Revolution**, New York: Oxford University Press.

Winiecki, Jan (2000), "Le condizioni per il successo delle privatizzazioni: il caso polacco", **Biblioteca della Libertà**, XXXV, maggio-giugno, n.154, pp.33-48.