Humanism and the Lessons Learned from the Failure of the Communist Economies

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Personal Introduction

The collapse of communism was one of the momentous historical events of our time. Surely the experience with "scientific socialism" and communism during the 20th century provide major humanist lessons for the future so that these mistakes will not be repeated in the same or different forms. Yet I fear that some of the most important lessons have not been learned, and that future generations may end up repeating the mistakes based on the same flawed ideas dressed up in different clothing.

My analysis is based in part on my own experience in the transition countries over the last two decades. In the late 1980s, I traveled in Eastern Europe, Russia, and China looking at a variety of reform experiments. When the great break came in the *annus mirabilis* of 1989, I left academia and moved to East Europe, to Ljubljana in what was then Yugoslavia and what today is the EU member of Slovenia. I founded a small consulting firm to try to apply the western experience with worker ownership to the privatization of the Yugoslav socially-owned and self-managed enterprises. The idea was to help the Yugoslavs evolve from the reforms they had made over previous decades to a more market-based model of worker ownership.

But these attempts were soon thwarted by western economists, such as Jeffrey Sachs, and by western development institutions, such as the World Bank, who wanted to take the opportunity to wipe the slate clean and to socially engineer the 'correct' model of market economy, essentially American-style capitalism. They would ask: "Why experiment with evolving a flawed model when we can engineer the correct model from the beginning?"

Some argued instead for pragmatism. For example, the German industrial sociologist, Ralf Dahrendorf, wisely counseled that the "revolution in Europe" should pragmatically "work by trial and error within institutions" [1990, 41]. But the arrogant social engineers would have none of it. After quoting Dahrendorf on precisely this point, the then-Harvard *wunderkind* economist, Jeffrey Sachs, went on to point out:

If instead the philosophy were one of open experimentation, I doubt that the transformation would be possible at all, at least without costly and dangerous wrong turns. [Sachs 1993, 5]

Why experiment—which might lead to "costly and dangerous wrong turns"—when one already has the Truth in the science of modern economics?

The idea of imposing socially engineered blueprints or "models" on developing and transition economies is actually quite widespread. But the "Mother Church," the "Vatican," in that religion is the World Bank. After two years of stalemate in Yugoslavia and then Slovenia, I took an opportunity to join the World Bank to see what I could do "from the inside." For over ten years, I worked within the Bank and largely on the post-socialist economies-all the while fighting as an isolated and rather ineffective gadfly against the social engineering mentality. After much of the damage had been done by the Bank and other development agencies particularly in Russia and the former Soviet countries during the early and middle 1990s, Joseph Stiglitz came to the Bank as its Chief Economist during the years 1997-2000. I became his advisor and speechwriter so it was only during those three years that we were about to generate some debate or at least dissent within the Bank on these issues. As the pressure mounted, Stiglitz resigned near the end of this three year contract but he renewed my contract before he left. Since I was like an alien germ that had somehow gotten into the Bank and was now covered with antibodies, I could not be employed elsewhere in the Bank. Hence I got a backroom "research" role that allowed me to spend the next few years writing a book using the World Bank as a case study and trying to lay the intellectual foundations for an alternative non-social-engineering approach to development assistance [Ellerman 2005].

This paper grows out of reflections on this experience with the post-socialist transition. In particular, it has become clear to me that some of the main "lessons learned" from the failure of communism are rather narrowly drawn and do not go to the heart of the matter.

Socialism and Scientism

To see the larger picture, I need to briefly review some of the intellectual history of socialism where I will be following the path laid out by Friedrich Hayek [1944; 1979] and Karl Popper [1961; 1962]. During the 19th century, the progress of the natural sciences was apparent to all, and that progress was translated into engineering triumphs over nature. The biological sciences were also starting to register successes that translated into major improvements in public health and disease control. Hence it was an easy matter to extrapolate the "march of science and technology" into the social world. As the scientific method would be applied to human affairs, then surely, it was thought, this would lead to better understanding of society which, in turn, would lead to the engineering of a better society for the future.

These ideas were developed in the first half of the 19th century by the French school of scientism or positivism founded by Henri de Saint-Simon and Auguste Comte. They saw the rise of a "social physics" that would have the scientific certitude of the law of gravity [Hayek 1979, 255] and that would then translate into the engineering of a better society. Even the word "socialism" in its modern sense was first used by this school [Hayek 1979, 282]. In Germany, these ideas

were blended with Hegelianism and were eventually developed with the greatest effect by Karl Marx. As the saying goes, "the rest is history."

I wish to extract from this thumbnail sketch only one idea—the idea that socialism would represent the rational reconstruction of society on scientific principles. It would be the inevitable end result of the triumphal march of the natural and life sciences carried over into the human sciences. As the march of science has led to the civil engineering of nature and to the medical control of many diseases, so the march of the social sciences would inevitably lead to the social engineering of society to achieve a prosperous and peaceful future for all. That vision of a socially engineered future was always a key part of the vision of "scientific socialism"—indeed, that phrase was first used by this French scientistic school [see Hayek 1979, 320].

Yet that connection is now almost lost. It was not Saint-Simonism that entered history as a brute reality but Marxism. And it was the specific flavor of Marxian communism—namely state ownership of the means of production and state planning of the economy—that has become historically associated with "scientific socialism." And thus the main historical lesson that is too narrowly drawn from the recent collapse of communism is the failure of state ownership and state control of the economy.

The lesson that has not been drawn is the failure of the idea of "utopian social engineering" [Popper 1961; 1962]. Instead the idea of social engineering has survived largely unscathed but dressed in the different clothing of modern economics. The lesson is that *Marxist* economics failed, and that modern neoclassical economics is triumphant. Social blueprints based on Marxism have been shown to be abject failures. Social blueprints or "models" (as they are called) based on modern economics are thus seen as simply the application of science to reconstructing society both in the transition and the developing countries. Hence the major development institutions such as the World Bank are simply being "scientific" when they base their social engineering schemes on the models provided by the best and brightest of the economics profession from the elite universities of the world [such as the "Harvard *wunderkinder*," Jeffrey Sachs, Larry Summers, and Andrei Shleifer, see Ellerman 2003].

What is Wrong with Social Engineering?

Some shallow criticism of social engineering is based on the complexity of human affairs. It is said even if we knew the underlying laws of human action, we could not gather all the relevant information together in one place to apply those laws. There are relatively simple situations where we can control the information and influences, and then economics can design a proper structure. For instance, an auction is such a relatively simple controllable situation, and auction theory has been one of the triumphs of recent economic theory. But, in general, markets, organizations, and institutions are just too complex to be engineered to a similar success.

These complexity arguments do not oppose social engineering in principle; it is just that the current technologies of information gathering, monitoring, and computation are insufficient to the purported tasks. That is not the sort of criticism I am making.

There is an objection to social engineering in principle based ultimately on the humanist conception of autonomy. Humans are, in essence, autonomous beings, and the very idea of

treating persons as being the objects of engineering is inherently heteronomous. This is essentially a Kantian argument and it finds its normative expression in the version of the Kant's categorical imperative that persons should always be treated as ends in themselves and never simply as means.

One prominent economic model to engineer a human relationship is called "agency theory" which models the principal-agent relationship (e.g., the employment relation). The problem is not straightforward since the agent may have much more information than the principal about the tasks the principal wants to be performed. The job of the economist is to design the carrots and sticks of the agency contract taking into account the information asymmetry so that when the agent follows his own self-interest, he will in fact be performing the tasks desired by the principal. The slogan and mantra is: "get the incentives right."

From these relatively simple micro-situations, the economics profession then generalizes the methodology to the grand problems of institutional design—seeing an institution as being like a complex multi-person contract. The key to institutional design is again to "get the incentives right" so that the various agents will "do the right thing" by following their self-interest within the designed incentive structure of carrots and sticks. In short, this is one of the ways that the idea of science-based social engineering has been reborn without any taint of association with Marxism or socialism.

It's the "How"—not the "What"

There are inherent flaws in the economic theory of institutional design as "getting the incentives right."

One problem is the question of "what versus how." At the individual or social level, the question of *how* people do something is more important than simply *what* physical behaviors take place. In order for a new reform law to represent an effective and sustainable institutional change, it is crucial how the law was arrived at. Did the law evolve out of the experience, the debates, and the struggles of the people, or was the law simply passed by the government as a requirement to get a loan from the World Bank or IMF? That "how" question is much more important than the "what" question of the technical details of the law. But the major development agencies have no time for historical processes which might end up anyway with a "flawed" law. The "market Bolsheviks" [Reddaway and Glinski 2001] have to use the "window of opportunity" to get the government to pass the "correct law" drafted by the best and brightest experts in the field. The conditionalities in the loan contract have to be crafted with the right carrots and sticks so that the client government will "do the right thing" by passing the law.

This criticism might be formulated using a notion of (psychological) "ownership." Unless the law is a product of the authentic internal processes in a country, the government and the people will have no "ownership" of the law; it will have little effect. Yet to the social engineering approach, it is a question of the "what" that is in the law—that the "what" reflects the latest technical advances in the field. The "correct law" is like the correct answer to a mathematics problem; it is still correct no matter how it is obtained. Whatever might evolve out of the experience of a transition or developing country will be "marred" by the circumstances of its birth. From the social engineering viewpoint, if those people knew what they were doing, they

wouldn't be in such a mess in the first place. Why settle for some second or third-best product of the internal processes in such a country when they can have the first-best product imported from the first world? Don't governments want the very best for their people? Hence it is the duty of the social engineers to see that their clients get the "best" laws.

When the question of ownership is raised, the response of the social engineers is that they will just have to engineer such "ownership" as a part of the whole project. For instance, as a requirement for assistance and loans from the World Bank, the country was required to go through an inclusive process to agree on a Poverty Reduction Strategy that was expressed in a Poverty Reduction Strategy Paper (PRSP). The World Bank then provided a two volume manual in excess of 1200 pages explaining the steps to go through in the PRSP process. If the resulting draft PRSP was too "flawed" then consultant experts could be brought in to help redraft it. In any case, the point of the whole exercise was that then the country should not only have the "right policies" but should "own" them.

The Fundamental Conundrum of Trying to Engineer Autonomy

This ownership of policies refers to the How, not the What. Perhaps the efforts of the World Bank to engineer "ownership" were just clumsy initial attempts that will eventually be perfected. Is there any problem, in principle, with engineering "ownership"?

This brings me to the fundamental problem in the social engineering approach. There is a basic conundrum that occurs across a wide spectrum of human affairs which might be called the "helping-self-help conundrum." Autonomy cannot be heteronomously engineered. Inside-out change cannot be imposed from the outside in. Genuine social change is a form of social learning writ large. Yet this basic conundrum cuts across any educational enterprise whether writ large or small. As the late philosopher of education, David Hawkins, put it:

If we ask how the teacher-learner roles differ from those of master and slave, the answer is that the proper aim of teaching is precisely to affect those inner processes that, as Hegel (and the Stoic philosophers before him) made clear, cannot in principle be made subject to external control, for they are just, in essence, the processes germane to independence, to autonomy, to self-control. [Hawkins 2000, 44]

Therein lies the flaw in all the modernized social engineering of economic theory. It is not a matter of "getting the incentives right" so that the agents will "do the right things." Unless doing the right thing is simply a physical behavior like digging a ditch, then the external control provided by even the best of incentive structures will not reach "those internal processes... germane to independence, to autonomy, to self-control."

It is not a matter of getting the incentives rights since the problem lies in the *source* of the incentives. Any incentives that could be socially engineered would have to be external and thus heteronomous. Any human activity where independence, autonomy, and self-control has a role must be based on internal motives. Søren Kierkegaard eloquently made both the points about the importance of the How over the What, and the impossibility of externally ("objectively" in his language) engineering an internal (or "subjective") result. The god Mars was said to have a

special armor that made him invisible. Thus Kierkegaard likened the attempt to "objectively" bring about a "subjective" result to the attempt to have Mars put on the armor of invisibility to see what he looked like [1992, 174]. It was an impossibility since the means would defeat the end.¹ Insofar as building new institutions and developing economically are not just physical behaviors that can be imposed from without but are human activities that can only be grown from within, then social engineering to "get the incentives right" is a means that will only defeat the ends. But, unfortunately, that is the standard economic approach to institution-building and development assistance.

Autonomy in Renaissance Humanism

In the West, "humanism" is historically related to the Renaissance of the 15th and 16th centuries when Europe slowly emerged from the hegemony of the medieval Church. The Middle Ages were characterized by the worldview of the Church which saw the cosmos as one great hierarchy.

In religious life we find the ecclesiastical hierarchy that reaches from the Pope as the summit, to the cardinals, the archbishops, the bishops down to the lower degrees of the clergy. In the state the highest power is concentrated in the Emperor, who delegates this power to his inferiors, the princes, the dukes, and all the other vassals. This feudal system is an exact image and counterpart of the general hierarchical system; it is an expression and a symbol of that universal cosmic order that has been established by God and which, therefore, is eternal and immutable. [Cassirer 1946, 132]

In modern terms, this was a totalitarian social blueprint where everyone had an assigned place and function.

Not in one master blow, but in many small strokes, the Renaissance chipped away at the medieval edifice. On one front after another, the system was weakened so that it slowly lost its unquestioned authority. The Renaissance provides an example of what is perhaps a near-universal pattern. To challenge a prevailing hegemony, it is most effective to appeal not to some external contemporary authority but to reach back into one's own "golden past" prior to the establishment of the hegemony.²

In the case of the Renaissance in Europe, this humanism was, of course, the revival or rebirth of the study of Ancient Rome and Greece. The word itself came later.

The term *Humanismus* was coined in 1808 by the German educator F. J. Niethammer, to express the emphasis on the Greek and Latin classics in secondary education, as against the rising demands for a more practical and more scientific training. In this sense, the word was applied by many historians of the

¹ For instance, there is the old insight that the "civil sword would make a nation of hypocrites but not a single Christian." [Gooch 1959, 74-5] There is now a whole literature on the problems of providing external incentives to try to achieve inward psychological results, e.g., Lepper and Greene 1978, Lane 1991, or Kohn 1993.

² Thus those who today seek another ground for legitimacy than the Chinese Communist Party or a narrow and fundamentalist Islam will look to the classics of their own past.

nineteenth century to the scholars of the Renaissance, who had also advocated and established the central role of the classics in the curriculum, and who in some German cities had founded in the sixteenth century the same schools which were still carrying on that tradition in the nineteenth. [Kristeller 1961, 9]

The term "humanism" harks back to a much older notion of humanistic studies that is reflected today in the notion of the "humanities."

The term *humanista*, coined at the height of the Renaissance period, was in turn derived from an older term, that is, from the "humanities" or *studia humanitatis*. This term was apparently used in the general sense of a liberal or literary education by such ancient Roman authors as Cicero and Gellius, and this use was resumed by the Italian scholars of the late fourteenth century. [Kristeller 1961, 9]

In spite of the Renaissance being such a multifarious period, it is hard to resist the temptation to exploit the advantage of historical perspective to see a unifying theme. The appeal to the Roman and Greek classics was not simply an end in itself; it served to challenge the legitimacy of the medieval worldview. *The central theme of Renaissance humanism was the reassertion of the autonomy of human beings in the face of the heteronomy of the medieval order*.

Some Renaissance philosophers such as the German thinker, Nicholas Cusanus (1401-1464), made the point in religious terms. In his *De visione Dei*, Cusanus

stoutly maintains the belief that the actual religious impulse derives not from without but from within the soul. For the essence of the soul is the capacity for self-movement and self-determination....Man's freedom allows him to want or not to want himself—and only if he autonomously chooses the former will God be given to him. The choice, the final decision, rests with man. [Cassirer 1963, 65]

The theme of man's autonomy could also be found in the classics that were being revived. The theme is as old as the Socratic doctrine of the unteachability of virtue (i.e., virtue does not consist in following some heteronomously imposed set of rules) and the Socratic emphasis on the need to actively appropriate knowledge (rather than just repeat some 'authority'),³ themes which were elaborated as well by the Stoics. During the Renaissance, these ideas were developed by the neo-Platonic Academy in Florence represented by Marsilio Ficino (1433-1499) and Giovanni Pico della Mirandola (1463-1494).

Ficino gave man a central role in the universal hierarchy; the soul had within it infinite possibilities.

The images of the divine entities whence it sprang, it carries in itself as the reasons and models of the lower things that it re-creates as it were of its own. It is the center of all and possesses the forces of all. It can turn to and penetrate this without leaving that, for it is the true connection of things. Thus it can be called

³ In the modern literature, one of the best treatments is aptly entitled *Socratic Humanism* [Versényi 1963].

rightly the center of nature, the middle point of the universe, and the chain that links the world together. [Quoted in: de Santillana 1956, 13-14]

The point is that the soul may be directed towards all these parts of the hierarchy without be determined or exhausted by any of them.

And this direction comes not from without but from within the soul itself. No overpowering fate, no violence of nature draws the soul down to the sensible world; nor does it passively receive divine grace that raises it up to the supersensible. One this point Ficino differs from Augustine...[and] this departure from Augustine brings Ficino closer to Cusanus. [Cassirer 1963, 65]

In Pico's *Oration on the Dignity of Man*, he went beyond the views of his teacher, Ficino, to place man outside of any fixed hierarchy of beings. The Creator said to his handiwork:

"Neither a fixed abode nor a form that is thine alone nor any function peculiar to thyself have we given thee, Adam, to the end that according to thy longing and according to thy judgment thou mayest have and possess what abode, what form, and what functions thou thyself shalt desire. The nature of all other beings is limited and constrained within the bounds of law prescribed by Us. Thou, constrained by no limits, in accordance with thine own free will, in whose hand We have place thee, shalt ordain for thyself the limits of thy nature. We have set thee at the world's center that thou mayest from thence more easily observe whatever is in the world. We have made thee neither of heaven nor of earth, neither mortal nor immortal, so that with freedom of choice and with honor, as though the maker and molder of thyself, thou mayest fashion thyself in whatever shape thou shalt prefer." [Pico della Mirandola 1948, 224-5]

Pico also surpassed his teacher in developing an unambiguous critique of astrology. The freedom enunciated in the *Oration* precluded not only determination by nature but also by the heavens as envisioned in astrology.

This formation excludes the possibility of any determination from without, be it 'material' or 'spiritual'. Through this faith in the pure, creative power of man and in the autonomy of his creative power, through this purely humanistic faith, Pico conquers astrology. [Cassirer 1963, 119]

Cusanus and the Florentine neo-Platonists still presented these ideas in a manner consistent with the religious authorities of their day. It was Giordano Bruno (1548-1600) who deliberately departed from the conventional religious setting (and who was eventually burned at the stake by the Inquisition). Bruno recognized the transcendental but contrasted one who might receive transcendental knowledge as a gift of grace with one who actively strove for it.

For man must grasp the divine not as a vessel or as an instrument, but as an artist and as an active cause. Thus, Bruno distinguishes the merely faithful receivers from those who feel in themselves the drive to ascend and the power of upward movement—the *impeto razionale* towards the divine. [Cassirer 1963, 97]

Cassirer goes on to quote Bruno's description of the two in De gli heroici furori.

The first have more dignity, power, and efficacy within themselves, because they have the divinity; the second are themselves worthy, potential, and efficacious, and are divine. The first are worthy, as is the ass which carries the sacraments; the second are as a sacred thing. In the first is contemplated and seen in effect the divinity, and that is beheld, adored, and obeyed; in the second is contemplated and seen the excellency of humanity itself. [Bruno 1887, 70 (Third Dialogue of Part I)]

By bringing together these thoughts of Bruno with the older ideas of Cusanus, Cassirer argues that:

we can encompass the whole movement of thought of the fifteenth and sixteenth centuries....The ideal of humanity includes the ideal of *autonomy*; but as the ideal of autonomy becomes stronger, it dissociates itself more and more from the realm of religion—the realm into which Cusanus and the Florentine Academy had tried to force the concept of humanity. [Cassirer 1963, 98]

It is this reassertion of autonomy in the face of a hegemonic and heteronomous social order that we take to be the central theme of Renaissance humanism and that encompasses "the whole movement of thought of the fifteenth and sixteenth centuries."

In view of human beings' autonomous potential as emphasized in Renaissance humanism, there is a certain ultimate futility in trying to engineer humans into a heteronomously imposed blueprint. After the Renaissance, the point resurfaced in the Reformation doctrine of the liberty of conscience. When Martin Luther addressed those who would try to "engineer" religious belief in his time, he might as well be addressing the social engineers of our day.

Besides, the blind, wretched folk do not see how utterly hopeless and impossible a thing they are attempting. For no matter how much they fret and fume, they cannot do more than make people obey them by word or deed; the heart they cannot constrain, though they wear themselves out trying. For the proverb is true, "Thoughts are free." Why then would they constrain people to believe from the heart, when they see that it is impossible? [Luther 1942 (orig. 1523), 316]

It is perhaps no surprise that Auguste Comte, following Henri de Saint-Simon, repeatedly attacked the liberty of conscience as a "revolting monstrosity" [see Hayek 1979, 257] with no role in a scientifically engineered society.

But it should be noted that the Renaissance and Reformation did not lead directly to concepts of autonomy, freedom, and tolerance but to a multitude of new authoritarian "right churches"

instead of the one big "wrong church" of Rome.⁴ It was only after much religious warfare between the various "churches" that the concepts of religious freedom, tolerance, and the separation of church and state finally took hold in Europe.

Concluding Remarks

Our purpose in briefly reviewing the intellectual history of Renaissance humanism is to provide a historical context for the recent emergence of so many countries from the heteronomous and hierarchical social order of "scientific socialism."

Has the basic humanist lesson been learned about the problems in a heteronomously imposed social order—or has the "lesson" simply been that communism was based on the "wrong church" of Marxian economics rather than on the "right church" of neoclassical economics? Modern humanism should not be intimidated by all the mathematical formulas of economic theory. These formulas cannot overcome the fundamental conundrum that autonomy cannot be externally engineered.

Yet the prognosis is that economic theory and the other sciences that impinge on human affairs will continue to provide legitimating ideologies as well as the tools for modernized social engineering. Each new development to increase the monitoring and control over people will bring with it the temptation to "re-engineer" society to "insure a peaceful and prosperous future for all."

The prognosis is also that the major multilateral and bilateral development institutions will continue to worship at the shrine of social engineering. They tend to be the instruments of the new "White Man's Burden" [Easterly 2006], the attempt of the advanced industrial world to impose certain models on the developing world—which, if history is any guide, will not be to the ultimate benefit of the supposed "beneficiaries."

Genuine development assistance does not operate according to the linear logic of a big engineering project where the more resources and expertise are pushed into one end of the pipeline, the more "development" will come out the other end. Genuine help, that fosters rather than smothers self-help, is a limited, subtle, and indirect matter. Today's thundering giants of the development industry—such as the World Bank—are totally unsuited for such limited and indirect assistance. And precisely for that reason, they will continue to operate according to the direct linear logic that the greater the resources (carrots) and power (sticks) that are applied to the problem to make people "do the right thing," the greater the "results."

Thus the demands on the new humanism for the 21st century will be as great or greater than the demands on the humanism of the Renaissance. Today, modern science has well earned its respect. The problem is not science but the abuse of science or scientism. With every triumph of science comes the increased temptation for the abuses of scientism.

⁴ Hence the famous quip: "Modern Democracy is the child of the Reformation, not of the Reformers." [Gooch 1959, 7]

We have already seen in the 20th century the major world movement of "scientific socialism," and we have seen in the closing decade of that century the ignominious failure of that hegemonic and heteronomous social order. It should again be a time of triumph for the humanist vision; it should be a time to build a bulwark against the abuses of scientism in the future. But to this observer, it seems that the main "lessons learned" are far too narrowly drawn, and that the fundamental lesson has hardly been learned at all.

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