

## CHAPTER 26

---

# NEOCLASSICAL ECONOMICS AS THE NEW SOCIAL ENGINEERING

*The Debacle of the Russian Post-Socialist Transition*

---

DAVID ELLERMAN

### INTRODUCTION: THE RUSSIAN DEBACLE

---

THIS chapter considers the role that neoclassical economics, as represented by a few elite professors and the principal Western advisory institutions of the World Bank and International Monetary Fund (IMF), played in the post-socialist transition in the former Soviet Union and East Europe. The transition to a market economy in China was markedly different in that the “standard” shock therapy advice offered by neoclassical economics was largely ignored in favor of a robust pragmatism and gradualism. And the results were also markedly different.

According to the pro-market Stanford economist John McMillan, in his 2002 book *Reinventing the Bazaar: A Natural History of Markets*, Russia’s production fell by 19 percent in the first year of shock therapy (1992) with a further 12 percent and 15 percent in the ensuing two years. It bottomed out at about 50 percent drop in gross domestic product (GDP). In contrast, from the start of incremental reforms in early 1980s, China averaged 8 percent per capita growth *for two decades*—which has continued (at various rates). In short, Russia experienced a debacle while China went through the greatest growth episode in modern history.<sup>1</sup>

<sup>1</sup> As McMillan put it: “The experiences of China and Russia could hardly have been more different. In China, reform was followed by world-record growth for twenty years. In Russia, incomes plummeted. Differences in their initial conditions . . . account for some of the differences in responses to reform. But much of it is accounted for by their policies” (2002: 206).

## HOW DID RUSSIA ARRIVE AT ITS DISASTROUS POLICIES?

---

The amount of reliance on foreigners' advice highlights the difference between shock therapy and gradualism. Russia leaned on lawyers, economists, and bankers from the West for advice on how to privatize state firms, develop capital markets, and reform the legal system. . . . China by contrast called little on foreign consultants (McMillan, 2002: 207–208)

Who is to blame? In his review of McMillan's book, Harvard's Gregory Mankiw wrote:

If McMillan is right that shock therapy was the problem, then the economics profession must accept some of the blame. Our profession lent some of its best and brightest to the transition effort, such as my former colleague Jeffrey Sachs. Most of these advisors pushed Russia to embrace a rapid transition to capitalism. If this was a mistake, as McMillan suggests, its enormity makes it one of the greatest blunders in world history. (Mankiw, 2003: 257)

Yet the main economists involved, principally the “Harvard boys” Jeffrey Sachs, Lawrence Summers, and Andrei Shleifer, as well as the leading advisory institutions such as the IMF and World Bank that espoused the standard Western economics advice (some version of shock therapy) have suffered *no professional or ethical accountability* for “one of the greatest blunders in world history.”

The problem lies not just in the arrogant misdeeds of a few individuals but in the whole orientation of neoclassical economics as the new “scientific” basis for social engineering on a vast scale.

## SOCIAL ENGINEERING AND SOCIALISM

---

While neoclassical economics is seen as directly opposed to socialism, there is a deeper connection that can be seen by reviewing some of the intellectual history of socialism 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*. The scientific treatment of the social world 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 scientific school (Hayek, 1979: 320). It was exactly that idea of rationally reconstructing society on scientific principles that ironically guided the advice of neoclassical economics to the post-socialist countries.

Yet that aspect of the socialist idea 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.” 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 garb of modern neoclassical economics. The lesson drawn is that *Marxist* economics failed, and that neoclassical economics is scientifically triumphant. Social blueprints based on Marxism have been shown to be abject failures. Social blueprints or “models” based on the science of 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 and the IMF are simply being “scientific” when they base their social engineering schemes on the models provided by the “best and brightest” of the economics profession (Ellerman, 2003).

## WHAT IS WRONG WITH SOCIAL ENGINEERING?

---

### The Pragmatic Critique

History offers few “crucial experiments,” but the contrast between the Russian and Chinese transitions is probably the best one could ask for to contrast a socially engineered shock therapy approach with a pragmatic incremental, step-by-step, or staged approach to institutional change. As the Yeltsin reformers such as Anatoly Chubais did use rather “Bolshevik” methods to try to storm the ramparts during the few windows of opportunity, Stiglitz (1999) and Reddaway and Glinski (2001) have called this “market Bolshevism.” A wise commentator has put the matter well:

We have a fearful example in Russia today of the evils of insane and unnecessary haste. The sacrifices and losses of transition will be vastly greater if the pace is forced . . . For it is of the nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, far worse than the old, and the grand experiment will be discredited.

These words are as true today as when they were written. And they were written by John Maynard Keynes (1933: 245) about the original Bolshevik transition, not today’s market Bolshevik transition in the opposite direction.

What was the alternative strategy? In this case, the incremental non-Bolshevik/Jacobin alternative has long found its sophisticated expression in the work of the late Albert Hirschman about incremental reform-mongering change driven more by endogenous pressures, bottlenecks, and linkages rather than by exogenous “carrots and sticks” embedded in IFI loan conditions.<sup>2</sup> The reform experience in China—which has never had an IMF program—represents something like this incremental approach in practice; crossing the river groping for the stepping stones rather than jumping over the chasm in one last “great leap forward.” As Deng Xiaoping put it in 1986:

We are engaged in an experiment. For us, [reform] is something new, and we have to grope around to find our way. . . . Our method is to sum up experience from time to time and correct mistakes whenever they are discovered, so that small errors will not grow into big ones. (Quoted in Harding 1987: 87)

<sup>2</sup> See the “two basic approaches” in Hirschman (1973: 247–248), where he contrasts an ideological, fundamental, and root-and-branch approach to reform with an incremental, step-by-step, piecemeal, and adaptive approach.

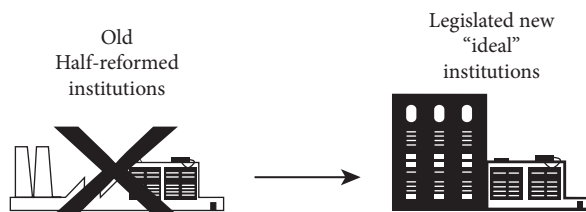
When the experiments had positive results, the method was to catalyze the process. As another Chinese reformer Hu Qili put it at the same time: “We allow the little streams to flow. We simply watch in which direction the water flows. When the water flows in the right direction we build channels through which these streams can lead to the river of socialism.”<sup>3</sup> One of the important misformulations of the transition alternatives was: fast versus slow. “Incremental” might be misleading if it is construed as “slow,” as the Chinese reforms were hardly slow.

China’s gradualism turned out to be a speedier route to markets than Russia’s shock therapy . . .

The fastest route from a planned economy to functioning markets, it turns out, was not frenetically tearing down the old institutions, starting with a clean slate, and enacting top-down reforms. It entailed letting the new economy grow up around the old one, maintaining some stability to let people create new ways of doing business. (McMillan, 2002: 210)

This advice was not just “20–20 hindsight” about how “it turns out.” The following was written in the middle of the transition debates in 1992 and published in 1993:

After the collapse of the socialist idea in the late 1980s and early 1990s, the question of institutional change strategies came to the forefront. Broadly speaking, two opposed strategies emerged. The Big Bang approach advocated just drawing a big X over the old half-reformed institutions and then legislating new “ideal” institutional forms.



Big Bang Approach to Institutional Change.

<sup>3</sup> Quoted in Harding 1987: 318. Thus do Chinese “socialists” instruct market Bolsheviks on the non-Bolshevik methods of institutional transformation. A related “pave the paths” metaphor is used by Christopher Williams (1981: 112). In a complex of new buildings, let grass grow between them, see where footpaths develop, and then pave the paths. Whilst voicing Hayek’s ideas about the market as a spontaneous order, many market Bolsheviks such as Václav Klaus at the same time labored to totally stop “spontaneous privatization” instead of trying to find the closest socially acceptable channel so that those spontaneous forces could grow from a stream to a river (Ellerman, 1993).

The old *de facto* property rights embodied in the half-reformed institutions would not be recognized in any significant way, and the new *de jure* property rights would be legislated by the new “revolutionary” democratic government.

What is wrong with moving in one great leap to some desired ideal form? Nothing—if institutional change could actually take place in that manner. But it usually does not. People will resist and “drag their feet” in countless ways when their *de facto* property rights are canceled or trivialized. The imagined great leap breaks down in chaos. Instead of disappearing overnight in favor of the new ideal institutions, the de-legitimated old institutions break down in favor of a shadowy anarchy of *ad hoc* opportunistic forms. The Big Bang becomes a Big Bust.

The alternative is a strategy of incremental institutional change. Instead of an imagined great leap forward over the chasm between socialism and capitalism, incentives would be devised to move people incrementally but irreversibly from the existing quasi-reformed institutions towards the “ideal” institutions. Instead of just negating the *de facto* property rights of managers and workers, they can arrive at a nearby set of legitimized *de jure* property rights by moving in the right direction.



Alternative Incremental Approach to Institutional Change

... [T]he Russian mass privatization program is a Big Bang program, while the Chinese reforms in agriculture and industry are the clearest example of a thoroughgoing incremental approach. (Ellerman, 1993: 27–28)

Murrell (1992) explored the connections between incrementalist strategies and conservative political philosophies. In Lau, Qian, and Roland (2000), the Chinese “two-track” system of reforms is analyzed where a second track, step, or stage is inaugurated and can then grow to eventually render the earlier stage obsolete. Black et al. (2000) use the word “staged” in much the same sense. In Joseph Stiglitz’s *Whither Reform?* (1999), the two “ideal types” were compared in Table 26.1 as a “battle of metaphors.”

Another part of the incremental approach, also evident in China, is the willingness to allow bottom-up experiments in different parts of the country and then foster horizontal learning and the cross-propagation of the successful experiments. In contrast, the Bolshevik/Jacobin approach stops “imperfect” bottom-up experiments like the Russian lease buyouts (Ellerman, 2003) and then legislates the brave new world of “ideal institutions” from the capital city to be applied uniformly across the country. But the transition from socialism to a market economy had not happened

Table 26.1 "Battle of Metaphors"

	Shock Therapy	Incrementalism
<b>Continuity vs. Break</b>	Discontinuous break or shock—razing the old social structure in order to build the new.	Continuous change—trying to preserve social capital that cannot be easily reconstructed.
<b>Role of Initial Conditions</b>	The first-best socially engineered solution that is not "distorted" by the initial conditions.	Piecemeal changes (continuous improvements) taking into account initial conditions.
<b>Role of Knowledge</b>	Emphasizes explicit or technical knowledge of end-state blueprint.	Emphasizes local practical knowledge that only yields local predictability and does not apply to large or global changes.
<b>Knowledge Attitude</b>	Knowing what you are doing.	Knowing that you don't know what you are doing (Benziger, 1996).
<b>Chasm Metaphor</b>	Jump across the chasm in one leap.	Build a bridge across the chasm.
<b>Repairing the Ship Metaphor</b>	Rebuilding the ship in dry dock. The dry dock provides the Archimedean point outside the water so the ship can be engineered to blueprint without being disturbed by the conditions at sea.	Repairing the ship at sea. There is no "dry dock" or Archimedean fulcrum for changing social institutions from outside of society. Change always starts with the given historical institutions.
<b>Transplanting the Tree Metaphor</b>	All at once transplantation in a decisive manner to seize the benefits and get over the shock as quickly as possible.	Preparing and wrapping the major roots one at a time ( <i>nemawashi</i> ) to prevent shock to the whole system and improve chances of successful transplantation. <sup>4</sup>

before in history so the situation *clearly* called out for experimentation and pragmatism.<sup>5</sup> Instead the World Bank, IMF, and Western advisors succumbed out of their own arrogance and "la rage de vouloir conclure"—the rage to conclude—(Hirschman, 1973: 238–240) to the social-engineering Bolshevik/Jacobin mentality (complete with cold-warrior moral

<sup>4</sup> See Elster et al. (1998) for the use of Otto Neurath's "rebuilding the ship at sea" metaphor in this context and Morita (1986) about *nemawashi*.

<sup>5</sup> Deng Xiaoping's pragmatism, "It is not important if the cat is black or white, but that it catches the mice," was echoed by Ralf Dahrendorf's 1990 call "to work by trial and error within institutions" (41; quoted in Sachs, 1993: 4). Dahrendorf's book was a deliberate updating of Edmund Burke's anti-Jacobin tract *Reflections on the Revolution in France* (1937, orig. 1790). Sachs argued against Dahrendorf's pragmatism noting that: "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). To avoid "costly and dangerous wrong turns," Sachs promoted the scheme of privatization through voucher investment funds as if that were a tried and true model for a transformation that, in fact, had never taken place before.

fervor to wipe the slate clean of past evils) and supported Moscow legislation to apply the dreamed-up “ideal solutions” across all of Russia.

## The Autonomy Critique

In addition to that critique of large-scale social engineering based on the wisdom of pragmatism, there is another principled objection to social engineering based on the humanist conception of autonomy. Humans are, in essence, autonomous beings, and the very idea of treating persons as being the objects of social 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 because the agent may have much more information than the principal about the tasks the principal wants to be performed and the principal’s monitoring of the agent may be rather imperfect. The job of the agency-theory 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 such relatively simple micro-situations, the social engineers of the economics profession then generalize the methodology to the grand problems of institutional design—seeing an institution as being like a complex multiperson 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—rationally reconstructing (a post-socialist or developing) society on scientific principles—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. 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 conflicts of the people,<sup>6</sup> or was the law passed by the government simply 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 that 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. 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 advisory institutions of the first world? Don’t governments want the very best for their people? Hence it is the “professional duty” of the social engineers to see that their clients get the “best” laws.

## The Fundamental Conundrum of Trying to Engineer Autonomy

This ownership of laws and policies refers to the How, and 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 us to the fundamental problem in the social engineering approach. There is a basic conundrum that occurs across a wide spectrum of human affairs,

<sup>6</sup> For instance, Machiavelli writing as a civic republican in his *Discourses on Livy* noted the quality of laws that arose out of the conflicts between the nobility and the people. “I maintain that those who blame the quarrels of the Senate and the people of Rome condemn that which was the very origin of liberty, and that they were probably more impressed by the cries and noise which these disturbances occasioned in the public places, than by the good effect which they produced; and that they do not consider that in every republic there are two parties, that of the nobles and that of the people; and all the laws that are favorable to liberty result from the opposition of these parties to each other, as may easily be seen from the events that occurred in Rome” (*Discourses*, Book I, Chapter IV).

which might be called the “helping-self-help conundrum” (Ellerman, 2005). *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 helping-self-help 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 just getting the incentives right since the problem lies in the heteronomous *source* of the incentives. The motivational source in other human wills is familiar in the notions of oppression and coercion.

“The nature of things does not madden us, only ill will does,” said Rousseau. The criterion of oppression is the part that I believe to be played by other human beings, directly or indirectly, with or without the intention of doing so, in frustrating my wishes. (Berlin, 1969: 123)

In this sense “freedom” refers solely to a relation of men to other men, and the only infringement of it is coercion by men. This means, in particular, that the range of physical possibilities from which a person can choose at a given moment has no direct relevance to freedom. (Hayek, 1960: 12)

Natural events on Robinson Crusoe’s island might lead to hardship and suffering but never coercion or oppression. Or as Tawney put it, “Hunger and cold cause misery, but men do not revolt against winter or agitate against the desert” (1964: 102). Thus in the juxtaposition of self with “other” as a source of motivation, “other” refers to other human wills.

Any incentives that could be socially engineered would have to be external and thus heteronomous. Any human activities where independence, autonomy, and self-control have a role must be based on internal motives. Søren Kierkegaard eloquently made both 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, as the means would defeat the end.<sup>7</sup>

Building new institutions and developing economically are not just physical behaviors that can be imposed from without by “getting the incentives right” but are human activities that can only be grown from within. The economic historian Richard Tawney put it well after visiting China in 1930:

To lift the load of the past, China required, not merely new technical devices and new political forms, but new conceptions of law, administration and political obligations, and new standards of conduct in governments, administrators, and the society which produced them. The former could be, and were, borrowed. The latter had to be grown. (Tawney, [1932] 1966: 166)

The social engineering to “get the incentives right” is a means that will only defeat the ends. But, unfortunately, that is the standard approach of neoclassical economics to institution-building and development assistance.

In view of human beings’ autonomous potential, there is a certain ultimate futility in trying to engineer humans into a heteronomously imposed blueprint. The point surfaced 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, [1523] 1942: 316)

It is perhaps no surprise that Auguste Comte, following Henri de Saint-Simon, repeatedly attacked the liberty of conscience as a “revolting monstrosity” (Hayek, 1979: 257) with no role in a scientifically engineered society. Saint-Simon and Comte would have loved agency theory.

But it should be noted that the 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.

<sup>7</sup> For instance, there is the old insight that the “civil sword would make a nation of hypocrites but not a single Christian” (Gooch, 1959: 74–75) And “getting the incentives right” in a package of IMF or World Bank conditionalities can make a government full of hypocrites but not a single true reformer. 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).

## CONCLUDING REMARKS

---

Has the basic lesson been learned today 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?

Aside from a few individual exceptions, the prognosis is that the bulk of the mainstream economics profession and the major development institutions will continue to worship at the shrine of social engineering dressed in the garb of modern economics. Those advisory institutions tend to be the instruments of the new “White Man’s Burden” (Easterly, 2006), the attempt of the advanced industrial world to impose certain institutional models (e.g., American-style Wall Street capitalism) on the developing world—which, if history is any guide, will not be to the ultimate benefit of the supposed “beneficiaries.”

Genuine assistance in the post-socialist transition or in economic development 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 “transformation” and “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 limited, pragmatic, and indirect assistance. And precisely for that reason, they will continue to operate according to the “right church” of neoclassical economics and according to the engineering logic that the greater the resource-incentives (carrots) and power (sticks) that are applied to the problem to make people “do the right thing,” the greater the “results.”

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 heteronomous social order. It should be a time of triumph for the humanist vision of autonomous development; it should be a time to build a bulwark against the abuses of scientism and social engineering in the future. But the lack of any accountability within the economics profession for “one of the greatest blunders in world history” is not a promising start. 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.

## REFERENCES

---

- Benziger, V. 1996, July–August. “The Chinese Wisely Realized That They Did Not Know What They Were Doing.” *Transition* 7 (7–8): 6–7.
- Berlin, Isaiah. 1969. *Four Essays on Liberty*. Oxford: Oxford University Press.
- Black, Bernard, Reinier Kraakman, and Anna Tarassova. 2000. “What Went Wrong With Russian Privatization.” *Stanford Law Review* (52): 1–84.

- Burke, Edmund. 1937 (1790). "Reflections on the French Revolution: In a letter intended to have been sent to a gentleman in Paris." In *The Harvard Classics: Edmund Burke*. C. Eliot, pp. 143–378. New York: Collier.
- Dahrendorf, Ralf. 1990. *Reflections on the Revolution in Europe: In a letter intended to have been sent to a gentleman in Warsaw*. New York: Random House.
- Easterly, William. 2006. *The White Man's Burden: Why the West's Efforts to Aid the Rest have done so much ill and so little good*. New York: Penguin Press.
- Ellerman, David. 1993. "Management and Employee Buy-Outs in Central and Eastern Europe: Introduction." In *Management and Employee Buy-Outs as a Technique of Privatization*, edited by D. Ellerman, pp. 13–30. Ljubljana, Slovenia: Central and Eastern European Privatization Network. [Available at: [www.ellerman.org](http://www.ellerman.org)]
- Ellerman, David. 2003. "On the Russian Privatization Debates: What Has Been Learned a Decade Later?" *Challenge* 46 (3 May–June): 6–28. [Available at: [www.ellerman.org](http://www.ellerman.org)]
- Ellerman, David. 2005. *Helping People Help Themselves: From the World Bank to an Alternative Philosophy of Development Assistance*. Foreword by Albert O. Hirschman. Ann Arbor: University of Michigan Press.
- Elster, J., C. Offe, and U. Preuss. 1998. *Institutional Design in Post-communist Societies: Rebuilding the Ship at Sea*. Cambridge: Cambridge University Press.
- Gooch, G. P. 1959. *English Democratic Ideas in the Seventeenth Century*. New York: Harper & Row.
- Harding, Harry. 1987. *China's Second Revolution: Reform after Mao*. Washington, DC: Brookings Institution.
- Hawkins, David. 2000. *The Roots of Literacy*. Boulder: University Press of Colorado.
- Hayek, Friedrich A. 1944. *The Road to Serfdom*. Chicago: University of Chicago Press.
- Hayek, Friedrich A. 1960. *The Constitution of Liberty*. Chicago: University of Chicago Press.
- Hayek, Friedrich A. 1979. *The Counter-Revolution of Science: Studies on the Abuse of Reason*. Indianapolis: Liberty Fund.
- Hirschman, Albert O. 1973. *Journeys toward Progress*. New York: W.W. Norton.
- Keynes, John Maynard. 1933. National Self-Sufficiency. In *The Collected Writings of John Maynard Keynes*. D. Moggeridge, pp. 233–246. London: Cambridge University Press: (Originally published in the 1933 *Yale Review*.)
- Kierkegaard, Søren. 1992. *Concluding Unscientific Postscript to Philosophical Fragments*. Vol. I, Howard and Edna Hong (eds. and translators). Princeton, NJ: Princeton University Press.
- Kohn, Alfie. 1993. *Punished by Rewards*. Boston: Houghton Mifflin.
- Lane, Robert E. 1991. *The Market Experience*. New York: Cambridge University Press.
- Lau, Lawrence, Ying-Yi Qian, and Gerard Roland. 2000. "Reform without Losers: An Interpretation of China's Dual-Track Approach to Transition." *Journal of Political Economy* 108(1), 120–143.
- Lepper, Mark R., and David Greene, Eds. 1978. *The Hidden Costs of Rewards: New Perspectives on the Psychology of Human Motivation*. Hillsdale, NJ: Lawrence Erlbaum.
- Luther, Martin. 1942 (orig. 1523). "Concerning Secular Authority." In *Readings in Political Philosophy*, edited by Francis W. Coker, pp. 306–329. New York: Macmillan.
- Machiavelli, Niccolò. 1940 (orig. 1513). *The Prince and the Discourses*. New York: Random House.
- Mankiw, N. Gregory. 2003, March. Review of: *Reinventing the Bazaar* by John McMillan. *Journal of Economic Literature* XLI: 256–257.
- McMillan, John. 2002. *Reinventing the Bazaar: A Natural History of Markets*. New York: W. W. Norton.

- Morita, A. 1986. *Made in Japan*. New York: E. P. Dutton.
- Murrell, Peter. 1992. "Conservative Political Philosophy and the Strategy of Economic Transition." *Eastern European Politics and Societies* 6(1): 3–16.
- Popper, Karl R. 1961. *The Poverty of Historicism*. New York: Harper Torchbooks.
- Popper, Karl R. 1962. *The Open Society and its Enemies: The High Tide of Prophecy: Hegel, Marx, and the Aftermath*. New York: Harper and Row.
- Reddaway, P., and D. Glinski. 2001. *The Tragedy of Russia's Reforms: Market Bolshevism Against Democracy*. Washington, DC: United States Institute of Peace Press.
- Sachs, Jeffrey. 1993. *Poland's Jump to the Market Economy*. Cambridge, MA: MIT Press.
- Stiglitz, Joseph. 1999. *Whither Reform?* 1999 ABCDE Conference, Washington, DC: World Bank. Reprinted in *Joseph Stiglitz and the World Bank: The Rebel Within*, edited by H.-J. Chang, 2001, pp. 127–171. London: Anthem Press.
- Tawney, Richard H. 1966 (1932). *Land and Labor in China*. Boston: Beacon Press.
- Williams, Christopher. 1981. *Origins of Form*. New York: Architectural Book Publishing Co.