

TEN YEARS OF HOPES FOR A NEW EUROPE: MOSCOW AND BRUSSELS FROM 1985 TO 1994

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A MATTER OF URGENCY: POLITICS AND TIME IN THE ECONOMICS OF RUSSIAN TRANSITION, 1990-2000

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(A ROUGH AND INCOMPLETE DRAFT, NOT TO BE QUOTED).

1. *Introduction*

The debate on the economic transition in Eastern Europe focused on a contrast between shock therapy and gradualism. The temporal dimension of policy was all-important indeed. This paper assesses that dimension from a political angle, in the belief that ‘transitionology’, the subgenre of development economics which Lipton and Sachs (1990) kick-started, paid special attention to the political constraints of reform. This was especially true in the case of Russia, on which the paper focuses. Development economics is a policy science, regularly tackling political issues like the efficiency of government and bureaucracy, people’s attitude to reform, or corruption. Yet, the lack of progress of Russian transition during years when other post-communist countries were making significant strides, put Russia’s political circumstances at the forefront of economists’ analysis.

This, however, did not prompt a substantive broadening of their tool box. The usual micro and macro principles combined with public choice analysis, game theory, and social choice theory, but the reasoning failed to gain any historical depth. The legacies of Russia’s past were thus dismissed. But it is arguable, albeit with the benefit of hindsight, that the transformation succeeded or failed in the various Eastern European countries depending on the amount of social resources and human capital developed over a long period (Ther 2016). The claim made in this paper is that economists presumed too much of their synchronic, atemporal form of knowledge once faced with the complexities – the ‘distortions’, to them – of Russia. This paper argues, first, that the ‘shock’ policies economists recommended resulted from political considerations first and foremost, and, second, that the economists’ consideration of Russian politics – of its corruption, unpredictability, and lack of agreement on fundamentals – tended nevertheless to broaden the viewpoint, hence to question the self-sufficiency of economics. But an interdisciplinary approach failed to materialise. The transition economists’ hubris so often evoked did not lie in the shock they advocated, but in the handling of economics as a boundless science.

In Russia and elsewhere in Eastern Europe, the economic transition was imbued with the sense that a clock was ticking down. Economists like Jeffrey Sachs, Rudiger Dornbusch, or Andrei Shleifer spread a view of the transition as an urgent task, meaning on the one hand that inaction spells disaster, and on the other that the political window for reform would close soon. Since the economies of the former communist countries were quickly deteriorating, allegedly, in the face of

high inflation, external indebtedness, and the paralysis of production, wasting time could trigger social dissolution and possibly dictatorship. It was now or never. The case of Russia seemed particularly serious, for the hopes held out in June 1992, when Yegor Gaidar was appointed to lead a reformist government, waned in December as he was replaced with Viktor Chernomyrdin. Policy-making reached an impasse. With inflation raging, Russian output slumped by 39 per cent in the years 1992-6 (Åslund 1997, 183). Economists continued to advocate a big bang, quite surprisingly, but the argument became more circumspect as the focus of analysis shifted towards political constraints.¹ It is possible that, between 1993 and the presidential election of 1996, recommending a shock therapy served as a kind of safety measure against the risk of an utter relinquishment of reform.

The paper focuses on Anders Åslund (Carnegie Endowment for International Peace; adviser to the Russian government, 1991-4), Rudiger Dornbusch (MIT; International Monetary Fund, ...), Stanley Fischer (MIT; World Bank, 1988-90; IMF, 1994-2001), Jeffrey Sachs (Harvard; adviser to the Russian government, 1991-3), and Andrei Shleifer (Harvard; adviser to Russian government, 1991-7). The shock therapies they recommended differed as to the degree of liberalization (for instance, some argued against capital account convertibility, or against an immediate wage deregulation). Yet, given the standpoint of this paper, the relevant distinction lies between those who made some room for history – for the ‘initial conditions’, in economic parlance – and those who did not. Fischer and Sachs belonged to the former group.

As regards the organization of the paper, section two documents the connection between the advocacy of shock therapy and political considerations. Section three is an aside to an extent, for it recalls very briefly how 1990s economists conceived the political sphere. Section four deals with privatisation in general and with *Privatizing Russia*, a 1995 volume by Maxim Boycko, Andrei Shleifer, and Robert Vishny, in particular. Section five addresses Åslund’s proposal for a swift financial stabilization to counter rent-seeking. Section six focuses on Sachs’s and others’ handling of history. Finally, section seven points to the reasons why the epistemology of transition is important.

2. Extraordinary politics

The transition of the Eastern European economies from a state-owned production system coordinated by central planning, to a fully-fledged market economy resting on private property posed unprecedented problems, at least for their scale. Lipton and Sachs (1990) laid out the chief arguments for what they called ‘big jump’, namely a ‘rapid and dramatic’ transition, consisting in fiscal and monetary stabilization, price deregulation, free trade, liberalization of production, and the preparation of a social safety net, all to be carried out more or less simultaneously. In Poland, only privatization should take ‘many years’, for as contentious and complex an issue called for a ‘rapid’ pace but not a ‘reckless’ one (101, 127-30).²

Remarkably, the chief reason for rejecting gradualism was political. In view of the social costs of transition, it was necessary to act quickly to avoid ‘populist pressures’ leading to inadequate policies, as the Latin American experience had taught. The ‘decades-long agony’ of Argentina proved most clearly that coalitions of workers, managers, and bureaucrats in the declining sectors could succeed in blocking the process of adjustment (87-8, 100, 125-6, 132).³ Lipton and Sachs warned therefore about proportional representation, leading to weak multiparty coalition governments (88). The two discussants of their essay at a Brookings Institution meeting,

¹ ... The subject is the political reasons for a big bang ... For definitions of shock therapy and gradualism, see Wei 1235, 1236, and the Balcerowicz interview, p. 46 ...

² Lipton and Sachs (1990) was an ‘instant’ essay, commenting in April on Poland’s shock therapy programme launched in January. The two had advised Poland since 1989 [check].

³ This argument was commonplace ... see e.g. Fischer and Gelb (1991, 95-6) ...

Stanley Fischer and Janos Kornai, agreed and called for a ‘tough government’. Add that the very logic of policy-making was synchronic according to Lipton and Sachs, for each measure – the restructuring of enterprises for example – required others – say, a working price system and currency convertibility – to be effective. Thus the process had to be not only comprehensive, but also simultaneous (99).⁴

A big bang was often advocated in view of another broadly political consideration. The inefficiency of Eastern European governments and bureaucracies, it was argued, ruled out gradualism, calling for a complex schedule of interventions, a firm grip on the economy, and a personnel acquainted with the workings of a market economy. Lipton and Sachs (1990, 88) made the point with reference to Poland, where the bureaucracy could not be relied upon to promote infant industries or regulate monopoly prices. To Dornbusch (1991), a rapid implementation of the market was necessary to avoid ‘economic disintegration’, granted that the same bureaucracies that had proved inefficient to organise production even with the advantage of repression could not be charged with the management of a ‘soft landing’. The great advantage of the market was its being an impersonal and automatic mechanism to allocate resources and organise production. It is significant that economists advised post-communist governments to adopt wholesale the civil code, the regulatory scheme, the accounting system, and the pension system already functioning in one or another western nation. Spending time and resources ‘to reinvent the wheel’ made no sense (Dornbusch 1991, 16; Fischer and Gelb 1991, 100-1).

... The idea of a ‘window of opportunity’, soon to close, was thus ushered in. The enthusiasm and unanimity following the fall of the Wall was a unique moment which reformers should exploit in full. Privatization itself should not be delayed beyond the short term, according to Lipton and Sachs (1990, 127), for the financial discipline of state enterprises was unlikely to last. The architect of Poland’s transition, Leszek Balcerowicz, famously spoke of a grace period, of a time of ‘extraordinary politics’ when much could be done with relative ease (Balcerowicz 1995). ...

3. Interlude: anti-politics and the limits of democracy

Arguably, the rationale for the Eastern European transition was supplied by (foreign) economists instead of political philosophers, historians, or ‘Sovietologists’. On the one hand, economists provided a disciplinary know-how whose scientific legitimation seemed stronger than that of other social sciences; on the other hand, they posited economics as a self-contained science, in practice if not in principle. The so-called ‘economics imperialism’, developing in America since the late 1950s, consists in an extension of the boundaries of the discipline in order to address central problems in neighbouring sciences, the territory of political science being paid special attention (e.g. Van Horn, Mirowski, and Stapleford 2011). This imperialism enhanced the actual normativeness of economics, in spite of regular claims to scientific neutrality. No surprise then that economists set the very goal of the transition – the American kind of capitalism, in contrast with Europe’s more statist version – besides the road map to achieve it. There was even who, in recommending a minimal state for Russia, acknowledged that ‘a pretty wild capitalism’ would develop, reminiscent of Dickens’s 1840s Britain (but the writer curiously added that, since ‘nobody could have expected the transition to be just’, these ‘are not our concerns’: Åslund 1992, 20; 1997, 185). The economists’ involvement in Russia’s politics speaks volumes about their cavalier attitude to the distinction between means and ends.

Economists dealt with politics in the terms they themselves had posited. The approach to politics inaugurated by Schumpeter (2003 [1943]) and developed by James Buchanan (2000 [1975]) among others rested on the concept of individuals maximising his/her wellbeing and reacting to incentives. It was claimed that a political analysis resting on such a basis was scientific, namely

⁴ Lipton and Sachs (1990, 80-6, 103-11) also pointed to the failure of piecemeal reform in Poland and Hungary in the 1980s as a reason against gradualism.

objective and ethically neutral (e.g. Buchanan ...). There resulted an anti-political bias, at any rate. Politicians uniquely aim for re-election within this framework, so that any idea of common good becomes meaningless; politics is nothing but squabbles among lobbies, all preying on the budget. The economists considered in this paper shared in a mistrust of the political process which was in the air in America's economics departments, whether one subscribed to Buchanan's 'public choice' theory or not. The temporal dimension was integral to this brand of thinking, because political decisions came always slowly due to the time-consuming processes of log-rolling, allegedly, and because politicians could find it rewarding to postpone painful measures. Bureaucracy too played the political game, meaning that it regularly helped delay decisions, always with an eye for its own aggrandizement.

Being sceptical about Eastern European politics was obviously reasonable, as was the warning about a political backlash, resting on Latin American examples and on that of Argentina in particular. Dornbusch, along with Sebastian Edwards, coined the term 'macroeconomic populism' in 1989, to indicate the trap of a fiscal expansion unconcerned with external constraints characterising Latin America.⁵ Sachs, for one, wrote a paper on the 'populist policy cycle' in 1989. In his view, extreme inequalities in the area generated social conflict, which in turn led to populist experiments. One of the historical episodes Sachs analysed was Juan Peron's government in Argentina, going as far back as the 1940s (Sachs 1989). Clearly enough, there was a historical lesson to be learned there, meaning that Sachs's 'transitionology' did not do without a measure of diachronic knowledge. It is interesting, moreover, that to Sachs (1989, 28-30) the recurrence of the populist cycle in Latin America was due to ignorance of orthodox economics by local politicians and economists alike. The trend of thinking among transformation economists, arguably, was to regard science and politics as opposites, for the former was synonymous with truth and the latter with conflict, which was 'a major impediment to successful economic performance' (Sachs 1989, 2-3).

Needless to say, a backlash against reformist parties did occur in many post-communist countries since late 1992. It seems weird, nevertheless, that reforms should be introduced to the new democracies somewhat surreptitiously. The point is that democracy itself was not beyond question within the neoliberal perspective informing economics imperialism (e.g. Davies 2014; Brown 2015; Romani 2022). A neoliberal author who was at the peak of his influence in the 1990s, Friedrich Hayek, was dismissive of democracy for the masses failed to understand the advantages of free markets, whereas an authoritarian government could well be 'liberal' in the economic sense.⁶ Both Hayek and the monetarist guru Milton Friedman were sympathetic to Pinochet's economic policies, each of them visiting Chile twice (in 1977 and 1981, and in 1975 and 1981, respectively) (Caldwell and Montes 2015, 298-304; Edwards and Montes 2020). This is not to say that transition economists, coming prevalently from the nation which had fought the Cold War in the name of liberty, favoured the 'Pinochet solution' (Fischer in Sachs and Woo 1994, 134-5). But the criticism of democracy put forward by neoliberals possibly left a trace on their texts, inasmuch as rapid decisions at the top were preferred to the slow maturation of opinion at the bottom. The needs of the economy – of the market – were the lodestar the political process should follow. 'Transitionology' was definitely technocratic and elitist.

4. *Hurrying to privatise*

An awareness that time was not on their side affected economists' conceptualization of reform in Russia and helped shape their advising. The voucher privatisation of 1992-4, as presented in *Privatizing Russia*, is a major example. This extraordinary book was written by three economists then advising the government: Maxim Boycko and Andrei Shleifer of Harvard, and Robert Vishny

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⁶ Ludwig Mises held similar views (Biebricher, Zanini, etc...).

of the University of Chicago.⁷ Both Shleifer and Vishny are major figures in the profession today, the former being the most cited economist in the world. A protégé of Lawrence Summers, Shleifer was awarded the John Bates Clark Medal in 1999. The volume expounds the rationale of mass privatisation as carried out by minister Anatoly Chubais with the assistance of the three authors. A peculiarity of the book lies in its tone, which is triumphant to say the least. Not only did Boycko, Shleifer, and Vishny depict Russian privatisation as a watershed in a transition that had been a failure up to then, but also as a success of economic science.

Transformation economists differed as to the best way to privatise large firms. Yet they agreed that in all countries it was a daunting task, chiefly because of political pressures coming from parliaments giving voice to lobbies of stakeholders. Therefore, it required plenty of time. On the economic side, the crux of the matter was to privatise in a way leading to corporate governance, hence to the restructuring of firms. The suggested period for the completion of the process ‘ranges from three to thirty years in various studies’ (Fischer and Gelb 1991, 98). The so-called ‘slow privatizers’ like Kornai thought that restructuring should precede privatisation (which required ‘true’ prices, a class of entrepreneurs, etc.), so that the sale of firms should occur mostly on a one-by-one basis. In contrast, the ‘fast privatizers’ pointed to the huge number of firms to be privatised, to the massive inefficiencies of the ongoing system, and especially to the need to avoid the strengthening of lobbies opposing reform (Lipton and Sachs 1990a; Fischer and Gelb 1991, 98-9). But even the latter stressed the necessity of the previous creation of legal institutions, of a system of accounting, and of a monitoring agency (Dornbusch 1991, 21-4). Accordingly, Lipton and Sachs (1990a) envisaged a period of four years for the privatisation of Poland’s five hundred largest state enterprises.

The privatisation of thousands of Russian firms, which seemed to be a ‘pipe-dream’ to most people, came to a ‘triumphant completion’ in three years, Boycko, Shleifer, and Vishny wrote. The miracle occurred because ‘a handful of reformers’ believed that economic principles were as workable in Russia as elsewhere in the world (vii, 8). Russia was no special case, contrary to the claims of ‘Sovietologists’. Russians too responded to incentives, wanted to operate a free market economy, and were eager to get rich. History – aka ‘initial conditions’ – did not count, for any historical legacy could be overcome with proper incentives (9-10; Shleifer 1997, 251). Namely, Boycko, Shleifer, and Vishny pretended to set their analysis in the atemporal framework of human nature.

Like all others, the Russian state was ‘a collection of politicians’ (33), each pursuing his/her own interest. Self-seeking was so natural that the three authors justified even ‘spontaneous privatization’, namely the stealing of enterprise assets by managers: Gorbachev’s decentralisation had generated incentives prompting them to do so (39). A comprehensive remark is that, in tune with neoliberals in general and Hayek in particular, Boycko, Shleifer, and Vishny accorded a special epistemological status to the market, not featuring as a way to organise the economy among others, but as a spontaneous occurrence reflecting human nature.⁸

The three economists depicted privatization as a struggle to take control rights on firms away from the ministries, which pursued power strategies opposed to efficiency. It was imperative to act quickly, for two political reasons chiefly. First, if the programme had not been pushed through fast, the opposition to any kind of privatization would have organised itself ever more effectively (152-3; Shleifer and Vishny 1994: 149). Second, in a country where economic transition had failed to materialise so far, privatization was expected to create a constituency for reform, enabling further progress (153-5). The latter argument clashed with the ‘sequencing’ of reforms advocated by the most authoritative transition economists, who maintained that fiscal and monetary

⁷ During Yeltsin’s second term Boycko served as Deputy Prime Minister and Deputy Chief of Staff.

⁸ See *The Sensory Order*, dwl money, market as an undesigned inventions ... [To Hayek (1973-9), the rules of the market generated order without design. Hayek prized the abstract rules of conduct presiding over spontaneous orders because collective values entailed the danger of a single ordering (vol. 2, pp. 12-17).] Plus the relevant pages of Boycko, Shleifer, Vishny.

stabilization, needed to avert the danger of hyperinflation, should take precedence over all other policies. It was necessary, in particular, to end the practice of extending state credit to inefficient firms (by printing money), leaving them to their own devices instead.⁹ A credible hardening of firms' budget constraints, implying a disconnection between production and the state, was essential for privatization to work. This is why the trade of no-stabilization for privatization was compared to 'a pact with the devil' in Blanchard et al. (1993, pp. 3-4). Boycko, Shleifer, and Vishny also argued against the view – seemingly commonsensical – that the creation of the institutions and legislation of free market should precede privatization. But, to the three authors, 'economic institutions cannot possibly precede the reallocation of property from the government, because people do not care about these institutions until, as property owners, they have an economic interest. With slow and deliberate reform, this interest would not have come about, and neither would the institutions' (154; Shleifer and Treisman 2005, 30, 50).

That the free market was the key to growth was an article of faith in the 1990s, so much so that Boycko, Shleifer, and Vishny concluded that it was indispensable 'to get some reforms going, both because markets build on themselves, and because of the political interests they engender' (155). In other words, they rolled the dice and hoped for the best.¹⁰ The rapid pace of Chubais's programme was made possible by the twofold choice of vouchers for the public and very generous financial benefits for the state enterprise managers.

As indicated, the authors of *Privatizing Russia* maintained that the antireformist front would gain strength with the passing of time. Other economists came to contrary conclusions, albeit their contributions were theoretical in nature. For example, Dewatripont and Roland (1992) argued that it could be cheaper for the government to buy off the groups opposing firm restructuring one at a time, while Wei (1997) viewed a sequential, rather than a simultaneous, removal of trade tariffs in the various sectors as a way to split the resistance to reform. A divide-and-rule tactics obviously called for a gradualist strategy.

Privatizing Russia was not a dispassionate piece of scientific analysis, the authors' pretence notwithstanding. The book was meant to defend the kind of privatization they helped carry out, soon criticised by major figures in the profession like Kenneth Arrow and Edmund Phelps. Add that Harvard's Russia project collapsed in disgrace, with Shleifer and others agreeing to pay millions to settle a lawsuit brought by the U.S. government (McClintick 2006); Boycko and Chubais too got caught in corruption scandals (Kotz and Weir 2007, 224). Forced to quit his advising job, Shleifer continued to defend his own judgements and practical activities. Doing nothing was the only politically feasible alternative, in his view (e.g. Shleifer and Treisman 2000, ch. 2). More generally, Shleifer has expressed a fairly positive assessment of Russia's transition, which to him had begotten a 'normal country' by 2004 (Shleifer and Treisman 2005). Reflecting on the lessons of transition in 2012, he lightheartedly acknowledged this and that mistake, but the synchronic approach was not among them (Shleifer 2012).

5. *Shock therapy against rent seeking*

After Sachs, the Swedish Anders Åslund was probably the most vocal advocate of early, comprehensive, and radical reforms in Russia. His analysis, as put forward in Åslund, Boone, and Johnson (1996), is relevant for the connection it established between the need for speed and the necessary curb on state firm managers' inefficient practices.

The 75-page essay drew on statistical evidence concerning twenty-three post-communist countries. There emerged, first, that rapid reform did not lead to a more substantial loss of output

⁹ See e.g. Lipton and Sachs (1990, 100); Fischer and Gelb (1991); Blanchard et al. (1991); Dornbusch (1991); Blanchard, Froot, and Sachs (1994a). see also Murrell in JEL, and p. 249 of Åslund, Boone, Johnson.

¹⁰ See also Boycko and Shleifer (1993, p. 80): 'Even after privatization, restructuring may not come. ... Yet to get to the point where restructuring is seriously contemplated, Russia needs to be privatized'.

than the loss resulting from gradualist programmes, and, second, that the parties implementing a shock therapy were not bound to lose the successive election. Most notably, and with Russia chiefly in mind, Åslund and associates argued that early and radical reform was the best way to counter the managers' rent-seeking, which, according to their calculations, in Russia added up to an astounding 55 to 75 percent of GNP in 1992 (Åslund, Boone, and Johnson 1996, 258). Managers opposed reform because high inflation – which a stabilization policy was meant to stop – was the main condition for creating or transferring rents to themselves.¹¹ Rents were extracted mainly in the forms of subsidised credits from the central bank and of arbitrage in the foreign trade in energy and raw materials; the latter was made possible by domestic price controls, multiple exchange rates, and foreign trade controls.¹² It ensued that the problem in Russia was not the early privatization per se, but the late stabilization and limited liberalization of trade. 'Rent seeking is closely correlated with slow or delayed stabilization' (289; Åslund 1997, 185).

Åslund, Boone, and Johnson (1996, 273-88) proceeded to recommend policies that could make reform irreversible by altering the incentives faced by subsequent governments. The idea was to implement tough measures in the initial period of reform, thus making it too expensive for the country to reverse course. Examples were a currency board, the international agencies' conditional assistance, and a clear design of the budget-making process in the constitution. Again, the timing of economic reform was viewed as decisive for its political implications. The relative strength of the former communist elite, and of the state enterprise managers in particular, determined the timing and intensity of reform in the various Eastern European countries (Åslund, Boone, and Johnson 1996, 226-7).

Whereas Boycko, Shleifer, and Vishny somewhat acquiesced in the rent-seeking and illegality rotting the country, Åslund and associates focused on the way to fight them. They therefore entered sociologists' territory, legitimised to do so by the analyses of criminal behaviour carried out by economists at the University of Chicago (...). It is perhaps indicative of a certain dissatisfaction with the abstractedness and generality of the big bang recipe that the discussion of Åslund and associates' essay at a Brookings Institution seminar emphasised the momentousness of a country's peculiar conditions. Barry Ickes of Pennsylvania State University, for example, pointed to different industrial structures, different sizes of the agricultural sector, different lengths of collectivization, etc. – country-specific factors like these, he argued, affect the choice of a liberalization strategy as well as its outcome (Åslund, Boone, and Johnson 1996, 301-4).

6. *Historicising the transition*

Lipton and Sachs (1990, 103-11) included some pages recounting Poland's economic history since the 1970s. It served to demonstrate that policies stopping midway between a planned system and a fully fledged market economy were bound to fail. Once Lipton and Sachs became advisors to the Russian government, they felt it necessary to counter those who argued that Russia's past ('1,000 years of autocratic rule') made a sudden passage to capitalism and democracy impossible. This is the same question – 'is Russia different?' – that Shleifer and associates answered in the negative by claiming, on the basis of a survey of opinion or two, that even the 'Russian man' was an incentive-led 'economic man' (Boycko, Shleifer, and Vishny 1995, 9-10). Lipton and Sachs differed from Shleifer and associates, however, for they ventured into Russian history besides bringing poll evidence. They pointed to three instances of political liberalization leading to economic growth: Alexander II's reforms after the Crimean War, Stolypin's reforms, and the NEP. 'In no case was the problem a lack of social or economic response to the new freedoms. Rather, in each case, the problem was a political reversal of the reforms' (253). It ensued that Russia's past was not at issue whereas Russia's present definitely was, the political management of reforms being

¹¹ Rent-seeking is p. 254 n. 47

¹² For instance,

key (Lipton and Sachs 1992, pp. 215, 250-4). Lipton and Sachs also scattered historical remarks in discussing Russia's political agenda for the next few years; in particular, Stolypin's circumstances were compared to Gaidar's (254-60). To comment, transition economics was a discipline *sans frontières*, invading the realms of political science, sociology, and Sovietology – so, why not history? But Lipton and Sachs got their history wrong, for, as a discussant indicated, hardly any easing of political oppression occurred in the examples they brought (Vladimir Mau in Lipton and Sachs 1992, 272-3).

Sachs grew disillusioned with Russia as time went by. In parallel, he widened the standpoint. In 1995, he explained the country's failure to achieve fiscal and monetary stabilization by pointing to the wide diffusion of 'antisocial behaviour', such as massive tax evasion, the flight from the ruble, and criminal conduct. Sachs put forward a model in which each agent's decision whether to pursue antisocial behaviour or not depends on the other agents' previous decisions. If the proportion of individuals opting for antisocial behaviour was high in the preceding period, there is an incentive to do the same in the present – it is a case of self-fulfilling expectations: if many people act (for instance, if many firms flee into dollars) in the belief that a certain event (a rise in the inflation tax for each firm) will occur, the event occurs (the inflation tax falls only on the few firms holding rubles). Here Sachs introduced the time dimension in the usually synchronic economic reasoning by supposing that agents take decisions at discrete intervals rather than continuously (Sachs 1995). Needless to say, this is far from being a properly historical viewpoint. Yet, in order to convince the West to be more generous with Russia, Sachs also resorted to a few historical examples of stabilization through international lines of credit, bolstering confidence (Sachs 1995, 65-6).

Sachs's concern with Russians' actual behaviour indicates to this writer that he somewhat acknowledged the limitations of economics – however imperialistic – for designing the transformation. As early as 1995, Sachs begun wondering whether a unique opportunity for Russia's economic progress had been squandered. Stabilization could be achieved in 1992 by the Gaidar government, in his view, for conditions were favourable then to establishing certain basic rules of good financial management. Yeltsin, who had been granted emergency powers, was at the peak of his popularity, and public opinion was supportive of reform. Yet, both the Russian reformers and the western governments wasted the moment (Sachs 1995a). The point here is that he was looking backward as a chronicler if not a historian, rather than looking forward as a technocrat and political economist. Significantly, he ascribed the success of economic reform in China to the 'initial conditions'. There, the state sector was much smaller than in Russia, and there was a vast surplus labour in agriculture which could fuel expansion in new industries – hence to him the Chinese experience, admittedly 'gradual', did not falsify the shock therapy recipe (Sachs and Woo 1994). Economists continued to be right, and politicians continued to be evil – namely, the big bang strategy could not be falsified by any data, for failures like Russia had to be imputed to politics.

Sachs's time of penance came in 1999, in accounting for the shortcomings of Russian transformation in the *Wall Street Journal*. He acknowledged the insufficiency of a purely economic approach, albeit obliquely, by indicating the importance of diachronic knowledge. 'History casts a long shadow in social life', he wrote, meaning that 1989 had not been a fresh start as he believed. Civil society was 'dead' in Russia then, so that power was left unchecked and corruption spread (Sachs 1999; 1999a).

Fischer (1994, written in April, 1992) relied on extensive historical analysis, in the belief that Russia's situation was peculiar in comparison to other Eastern European countries. It was so for three reasons: price liberalization had occurred before macroeconomic stabilization; there was a clear linkage between industrial restructuring and macroeconomic stabilization (for instance, the central bank provided cheap credit, and bad interfirm credits were the rule); and the interrepublic economic relations were important. To recommend a gradualist strategy, Fischer found a useful precedent in the Bolsheviks' NEP. Since large state firms cannot be privatised rapidly, he argued, a transitory phase like the NEP is appropriate. It serves to privatise agriculture and distribution, and

also to introduce measures making the large public enterprises operate more efficiently – as done in the 1920s. ‘Looking back, it is striking that the transition to the Soviet system took as long as it did’, nearly eight years; ‘a lengthy transition process has to be envisaged in the reverse direction as well’. The NEP experience highlighted the need for pragmatism (221-36, 242, 249-50, 256-7, quotation on 250).

Dornbusch (1991) on West Germany in the wake of WWII ... also a paper or two in *Ordo*

...

7. Concluding remarks

Economicization, TINA

Economic man, incentives → rent-seeking makes sense

The problem not the shock therapy, but the overstretching of economics

A case of applied imperialism of economics – its implications for politics

Hirschman 23, 45-7

Something crucial overlooked: national pride [see paper on *PrivRussia*], ‘passions’ – no straightforward relationship between the economic and the political [failure of the Great Society] – what utilitarianism misses.

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