

**Post-Socialist Political Economy: Selected Essays**

James M. Buchanan

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The art of political economy has been a dying art for most of the 20th century. Since mid-century, political economy has made a comeback and that comeback was largely due to James Buchanan. Buchanan's work has made scholars pay attention to the rules of the game within which markets are embedded. He has also constantly pointed out that political economy reform must always begin in the "here and now" and not in whatever arbitrary start-state we imagine. Real world reform is constrained, to this extent, by where we start from. It is that point of departure which defines the problem that must be addressed by the political economist.

*Post-Socialist Political Economy* collects a variety of papers Buchanan wrote in response to the events of 1989–91, or influenced by those events. The essays emphasize the themes of how rules of the game within which we play structure the incentives that guide our actions and the flow of information that we must process in making our choices. In essence, this reiterates Buchanan's work on the "constitution of economic life" that sets the rules within which economic outcomes continually emerge. Deliberate choice can only be made at the level of rules, not among these outcomes. Thus, Buchanan's work bounds the pattern of outcomes, but cannot provide detailed predictions of outcomes.

The new wrinkle to these essays is Buchanan's consideration of the issue of legitimacy of the rules as conveyed in the asymmetric lived experience among people of the West and the East. The work of public choice and market process scholars has highlighted the incentive and informational difficulties associated with alternative institutional environments, but Buchanan peers beneath given institutions and explores the legitimacy accorded to those institutions by different people. The basic institutions of a Western market society, for example, do not accord well with the lived experience of the Soviet peoples with markets. The institutions of pricing and bargaining existed in both Soviet and post-Soviet periods. But under the Soviet period, the experience was one within the following situation: a black market without well-defined or enforced property rights, and a shortage of goods and lack of alternative supply networks.

Those who could exploit the shortage situation could capture "rents" in the form of monetary "bribes," "black-market profits," and nonmonetary "privileges." Markets were necessary for daily survival, but black (and other colored) markets are not the same as aboveground and legitimated markets backed by the rule of law despite the formal similarity of prices and bargaining. The asymmetry between "markets" has to be the starting point of thinking about transition.

Fixing this situation is not just a matter of freeing prices so they can adjust to the market-clearing level. Of course, freeing prices is a necessary

move, but it is not sufficient. "Getting prices right" is not enough. What is required is an intricate mix of institutions that enable individuals to realize the gains from exchange, but the intricate mix of institutions must be legitimated in the belief structures of the people—we cannot just impose whatever institutional structure we want wherever we want to, it has to be "grounded."

Buchanan's book is an optimistic book about man's ability to design rules of the game to improve the everyday life of people tempered by a realist's appreciation of the difficulty of designing rules that can "stick." The future is ours to make, Buchanan insists, but with that call comes a huge moral responsibility that we must take seriously. In the end, *Post-Socialist Political Economy* is not a call for action as much as an invitation to study and think about profound issues. As such Buchanan provides the reader with an anti-utopian, and nonhubris, track for the political economy of transition. He lays out the unique role of economics as a public science—with special emphasis on the spontaneous ordering of market activities within a system of property, contract, and consent, and how deviations from that system are counterproductive. Economics as a public science, Buchanan reminds us, provides citizens with knowledge that empowers them to become informed participants within the democratic process.

The book ends with three chapters dealing with the idea of federalism and its relevance for the modern world. In so doing, Buchanan underscores his basic thesis—the need to establish constraints on the natural proclivities of men for shortsightedness and free-riding so that citizens can realize the generalized benefits of a market economy.

Buchanan's book contains much wisdom that is lacking from most (if not all) the emerging literature on the problems of post-socialist political economy in East and Central Europe and the former Soviet Union. Many of those books have a lot of details on the situation, or clever technical arguments, but little in terms of a moral narrative on political economy.

A few years ago I reviewed Joseph Stiglitz's book *Whither Socialism?* and started the review by pointing out that when you take a premier economic theorist and combine that with a premier economic problem you have very high expectations indeed. Buchanan's book raises our expectations in a similar way, but whereas Stiglitz fails to meet the challenge, in my assessment, Buchanan succeeds in putting questions in front of us that we must answer if we hope to move forward and address the difficulties associated with post-socialist political economy. Those questions deal with

- (1) the *de facto* property rights arrangement that existed under the old system,
- (2) the *institutional arrangements* within which markets are to be embedded after the reforms, and
- (3) the *historical experience* and *cultural legacy* of the country under examination, and specifically the question of the lived experience with market institutions as a carrier of legitimacy.

## BOOK REVIEWS

If we do not pay attention to those issues, we risk continual frustration due to misspecification of the problems and poor design of transition policies.

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