

tion between the official and unofficial economies and the economic self interest of those who benefited from that structure. Understanding the real Soviet reality is a necessary prerequisite for satisfactorily examining the difficult problem of transforming the former Soviet economic system into a thriving and prosperous market economy.

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A nation so unused to acting for itself was bound to begin a wholesale destruction when it launched into a program of wholesale reform . . . An absolute monarch would have been a far less dangerous innovator. Personally, indeed, when I reflect on the way the French Revolution, in destroying so many institutions, ideas, and customs inimical to freedom, abolished so many others which were indispensable to freedom, I cannot help feeling that had this revolution, instead of being carried out by the masses on behalf of the sovereignty of the people, been the work of an enlightened autocrat, it might well have left us better fitted to develop in due course into a free nation.

Alexis de Tocqueville¹

INTRODUCTION

In accomplishing any difficult task, recognition of the problem to be solved is one thing, providing a workable solution is quite another. A clear conception of the problem, however, is a necessary prerequisite. In fact, one of the major stumbling blocks to the transformation to a more liberal and civil society in the former socialist countries has been the failure to appreciate the depth and nature of the problem at hand. Moreover, the cultural legacy of the previous system of economic organization – the administrative command economy – has been misunderstood.

Not only were scholars, intellectuals and political actors confused over the nature of the Soviet-type system, people in both the East and West were generally confused over what the economic organization of a liberal and civil society would look like.² This confused state is a result of a

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failure to understand the historical lesson offered by twentieth-century economic policy. The experience of the economic systems in both East and West have more in common than is generally recognized.

The historical experience of government-managed economic policy in both East and West has much to offer for developing sound and liberal economic policy in the twenty-first century. Recognition of the structural problems confronting government-managed economies provides the basis upon which we can begin to understand the political realities that liberalization policies will face.

RENT-SEEKING: EAST AND WEST

Difficulties in government economic management are not peculiar to the Soviet-type economies. The failure of economic policy in Western democracies also illustrates the fundamental problems of government management of the economy.³ Budget deficits, public debt, monetary and credit manipulation, disruptive taxation and failed public services are facts of life in the West and are consequences of economic policies that demanded an active role of the government in managing the affairs of capitalism.⁴ Western consumers are ridiculously well-off compared to their East and Central European counterparts, but that should not be taken as a reason for examining our own deep structural problems and providing information to would-be reformers about the failures of Western political economies.

While most commentators discuss what the East can learn from Western democracy and managed market capitalism, we still have much to learn from the East that relates to our own problems. And, rather than learn from our legislative economic 'successes' the East could learn a lot from our failure to protect our constitutional heritage. As John Kenneth Galbraith has reminded us, the political and economic systems of the West are not examples of *laissez-faire* capitalism, but are forms of incomplete social democracy.⁵

While *laissez-faire* capitalism does provide answers to the economic problems of incentives, information and dispersed knowledge discussed in Chapter 3, the constitutional democracies of the West have failed to address the political organization problem in any lasting way.⁶ The noble and inspiring original attempt at constitutional democracy derived from the work of Montesquieu has failed to produce the polity it envisioned because of the internal workings of democracy.⁷ The rule of factions that James Madison warned us about has become the norm of governmental practice in the West.⁸

THE LOGIC OF POLITICS AND OF REFORM

The rule of factions is a logical outcome of representative democracy. Good politics does not always make for good economics. Rational abstention and rational ignorance on the part of voters undermine to a considerable extent the preference revelation function of electoral campaigns. Moreover, democratically elected politicians, who by definition must rely on votes and campaign contributions to get elected, cater to those who have a selective incentive to cast informed votes. As a result, the bias in policy-making under representative democracy is to concentrate benefits on the well-organized and well-informed and disperse costs on the ill-organized and uninformed mass of citizens. The best way to do this is to sponsor policies which yield short-term and easily identifiable benefits at the expense of long-term and largely hidden costs. Continual deficit financing or financing government activity through the hidden tax of inflation are just two of the tools that politicians have at their disposal for pursuing such a course. Public policy in the Western democracies, therefore, contains both a concentrated benefit and a short-sightedness bias.

Western institutions such as the United States Federal Reserve System, Federal Trade Commission, etc., even though they are lauded as fundamental institutions for regulating the excesses of capitalism are quite susceptible to political influence. Much of the evidence of the history of these institutions, in fact, suggests that they were instituted for the purpose of protecting special interests from the rigors of free-market competition.⁹

We are, therefore, faced with a peculiar situation in assessing comparative political economies in East and West. On the one hand, complete and comprehensive socialism is simply an economic impossibility. The economies of the East did not conform to the ideal model of socialism. This was not because of political perversion of the ideal by the leaders, but for the simple reason that the socialist model cannot exist in reality. Instead these economies were commodity production systems that relied on the decentralized decisions of the market (however deformed) as the basic coordinating mechanism. The system granted *de facto* ownership of scarce resources to members of the bureaucracy who derived profits from their positions of power through artificial scarcity rents and patronage rents.¹⁰

On the other hand, Western economies do not conform to the ideal model of capitalism. *Laissez-faire* capitalism, unlike socialism, however, is an economic possibility. But, individuals find that through the use and manipulation of government they can achieve and protect contrived scarcity rents that competition would otherwise disperse

among consumers. From an organizational viewpoint, the real existing economic systems in East and West are the same – the difference lying in degree not in fundamental kind – and can be studied and criticized by employing the same principles of economics. The economies of East and West are quasi-mercantilist, rent-seeking societies.

Whether we call these economies state capitalist or state socialist (deformed capitalism or incomplete social democracy) the main problem facing the reform of the government-managed economy in both East and West is the powerful vested interests that benefit from the pre-existing organizational arrangement. The failure of both the Thatcher and Reagan 'revolutions' to produce any lasting structural change should warn the would-be reformers in the East of the difficulty in turning back the state.¹¹ As Anthony deJasay has concluded: 'Democracy's last dilemma is that the state must, but cannot, roll itself back.'¹²

Within a democratic regime such as the US, as Milton and Rose Friedman have argued, an iron triangle consisting of politicians, beneficiaries and the bureaucracy forms which produces a bias toward the status quo.¹³ Moreover, as Racquel Fernandez and Dani Rodrik have argued, even in cases where the welfare implications of a policy change are unambiguous, such as trade liberalization, reforms will be resisted by the polity.¹⁴ The bias toward the status quo results not only because of the interest group pressures that the Friedmans discuss, but also can be shown to follow logically from the asymmetry that exists within the political process. Informational uncertainty about individual gainers and losers from political economy reform prevent desired reforms from ever being adopted in the first place even if they would receive popular support after the fact. And, once a reform is rejected it is unlikely to ever be accepted.

In other words, even assuming away pressure groups, voter preferences may still be revealed in a manner which possesses a status quo bias. An electorate, for example, that rejects a policy reform will not possess any incentive to change its vote in the future for the simple reason that no new information about the efficacy of the policy will be provided by the passage of time. Information concerning the rejected policy will not be readily available and, thus, there will be no reason why the electorate would change their behavior. A rejected reform will remain rejected, whereas an accepted reform will either be supported as it proves effective or it may be reversed in the future if it proves to be unpopular.

The incentives and information generated by voting procedures, as well as interest group pressure, generate a bias toward the political status quo and the rejection of welfare enhancing economic policies. Only a shock to the system coupled with a major reform package can break this hold that existing political structures have on the economic system. The upshot of this analysis is that public policies that generate economic inefficiencies can have a rather long life once they are instituted. Moreover, the focus of reformers should not be on correcting past inefficiencies because the difficulties of reversing the particular policy will be considerable. Rather, reformers should be concerned with establishing institutions which protect against economically inefficient public policies from being accepted in the future.

The reformers in the East would do well to learn from the failure of Western democracies to check the encroachment of the state into economic life and the apparent inability to reverse the process. And the West would do well to acknowledge intellectually that the same pretense of knowledge that inspired the socialist experiment in the Eastern Bloc also inspired, and continues to inspire, our attempts at managed capitalism and social democracy.

THE PROBLEMS AND PARADOXES OF REFORM

Perhaps the most common complaint one hears concerning the transition of the economies in East and Central Europe and the former Soviet Union, is that there does not exist a transitional model. While the transformation task is daunting, the mainstream perspective tends to overstate the difficulty.

There should be real concern on how to get there from here. But, the economic problems of reform are systematically overstated in the conventional wisdom because of erroneous comparisons between the real levels of output, employment and prices in a market environment with the spurious levels recorded under the previous administrative command system. For example, there is a standard of living measurement problem in the reform process. Traditional measured real incomes are nominal incomes divided by prices, but in an excess demand economy (i.e., where prices are fixed below market clearing levels) incomes divided by prices do not measure actual living standards. A rise in prices that brings forth supply may actually increase well-being whereas the measurement would show a decrease. A similar problem is associated with standards of economic growth. The previous system valued production independent of the net

market value produced and as such overstated economic growth. Moreover, the gross output targets provided an incentive to include physical, but valueless, bulk output in measurements of growth. A decline in measured growth during the transition, therefore, might actually correspond to increased coordination of production with consumption and satisfaction of consumer demands, including an increase in product quality. Needless to say these problems are further compounded if we include the problem of falsification of economic statistics. From a purely positive economic perspective reform is much more tractable and the attendant costs much lower than are usually stated. The political economy problems of reform are real enough without including bogus economic costs.

Moreover, while there appears to be an intellectual consensus about the failure of the old regime in East and Central Europe, a similar consensus has not emerged concerning where the transformation should lead. Therefore, the two major difficulties confronting structural reform are: (1) ideas concerning the nature and logic of economic organization; and (2) the vested interests of the old regime.

At the level of ideas there are those experts from the West who continue to voice opposition to unfettered capitalism.¹⁵ The majority of Western economists, especially those advising the governments in transition, such as Jeffrey Sachs and Stanley Fischer, are convinced that the problem with the formerly socialist economies was that the planning principle was pursued too comprehensively and vigorously, thus confronting the bureaucracy with an overly complex task. In those cases where partial marketization had occurred (such as Hungary), the problem was simply that East European economists did not learn how to manage their economies effectively. With the right institutional framework, e.g., a central bank, a Federal Trade Commission, an Environmental Protection Agency and so on, the task of managing the economy could be accomplished efficiently and the anarchy of unfettered markets could be controlled. The context and implementation of planning under the old regime is challenged, not the principle of planning and government management of a market economy. That is the logic of the position of the mainstream reformer even if they do not state that position explicitly.¹⁶ Mix macroeconomic stabilization policies with microeconomic regulation and the conventional wisdom espoused by Western advisors for economic transformation emerges.

Western institutions, such as the World Bank and the International Monetary Fund, continue to provide aid for the planning and

management of economic development to some 75 governments around the world, including former socialist economies. Continuous appeals have been made by American politicians and intellectuals throughout the Gorbachev, and now Yeltsin, period to aid the East European economies in this period of transition along the lines of the Marshall Plan.¹⁷ On 1 April 1992, President George Bush and Chancellor Helmut Kohl of Germany unveiled the plan for a \$24 billion aid package to the Russian government to assist the process of economic reform.¹⁸

This practice persists in spite of the overwhelming evidence of the failure of government planning of economic development and foreign aid programs.¹⁹ The very aid package offered would, by subsidizing existing political/economic structures, undermine the revolutionary transformation necessary for the formerly communist economies to become prosperous and thriving.

These ideas and practices concerning government management translate into two trends in policy-making that undermine even the best intentions of reform. It is argued that what is needed is a careful and detailed plan for the transition, which is envisioned as a process of phasing in reforms. Drawing up a detailed plan requires the specification of hundreds, perhaps thousands of laws concerning the regulation of markets. Phasing in requires deciding on economic priorities, e.g., which subsidies stay, which go, what firms are privatized, which ones are not and so on, before market competition is introduced. Both trends in policy-making tend to undermine structural reform.

Rather than concentrate on working out details of economic regulation, reformers should commit themselves to fundamental change in the structure of the polity's relationship to the economy. The problems with the phase in strategy are twofold. First, the time lag gives opposition forces the opportunity to organize and develop their counter-strategy to reform. Second, if the government could outline priorities and select out the economically strong companies from weaker ones and enact 'hard' budget constraints in the absence of free market processes then there would be no need for reform in the first place. But only real market competition can provide the discipline of the hard budget constraint. Politics, on the other hand, in both East and West leads to 'soft' budget constraints and their corresponding inefficiencies as politics dominates economics.

Thus, the reform decrees should neither be overly detailed nor

come in a series of small steps. The decrees must come, as it were, overnight. Immediate and unconditional repudiation of government planning and management of the economy must be instituted. Protection of private property, the elimination of consumer and producer subsidies, the elimination of all restrictions on labor mobility and the elimination of all restrictions on currency exchange are just some of the decrees necessary. But in order to accomplish such a reform the political actors need to have tremendous conviction and power.²⁰ This, of course, is potentially one of the great paradoxes of reform.

Great centralized power may be necessary in order to implement a great decentralization of the power of the government over the economy. Such power would be needed because the very reason why reform is necessary, i.e., the dominance of bureaucratic interests over economic, also provides the strongest resistance to reform. The vested interests of entrenched bureaucracy provide formidable obstacles to fundamental change.²¹ Bureaucratic inertia, as the reform economist Vasily Selyunin pointed out in 1988, possesses the potential to undermine any effort at change. 'Today,' Selyunin stated,

this uniquely large and uniquely impotent apparatus is engaged in translating the Party's decisions on restructuring into the language of various instructions and directives. Since bureaucrats' chief concern is self-preservation and, therefore, the preservation of administrative management methods, it is not hard to guess what the results of this process will be. The existing bureaucratic machine cannot be incorporated in restructuring. It can be broken up and eliminated, but not restructured.²²

This problem of bureaucratic inertia and the paradox of centralized power to accomplish decentralization are not phenomena new to the post-communist political economy. They actually represent the fundamental problem and paradox of all attempts to change governmental structures in a direction that reduces their scope and power. Ironically, for example, trade liberalization in Taiwan and South Korea in the 1960s and Chile in the 1970s was imposed by authoritarian regimes. Unfortunately, authoritarians often claim power with a statement of good intentions, but rarely live up to them.²³

SOVIET BUREAUCRACY AND PERESTROIKA

Since its inception, the Soviet state was an autocracy, although not necessarily a dictatorship. Ultimate authority usually was shared by a small group. At times a single individual, such as Stalin from 1928 to 1953, exercised approximate absolute power. But the Soviet political system would best be described as rule by a small clique centered in the Politburo.

The political structure of the mature Soviet system was established by Lenin in the spring of 1921. In order to alleviate the economic catastrophe of 'War Communism' and eliminate the political challenge to power that had emerged, Lenin introduced the partial economic liberalization of the New Economic Policy, but simultaneously he decreed absolute political power to the Communist Party. Not only were opposition political parties effectively eliminated, but even free debate within the Party was decreed illegal. Though many Western observers of the Soviet scene, such as Stephen Cohen and Jerry Hough, refer to the 1920s as a period of *cultural liberalism* and as a sort of 'Moscow Spring,' this overstates the freedom of that period. Surely, the NEP period could be characterized as one of relative freedom compared to the period of 'War Communism' that preceded it or the Stalin period that came immediately after, but it was not a period of political liberalization as is sometimes suggested. It was, rather, a period of solidifying an authoritarian political monopoly. That was the political system that Stalin inherited and manipulated in his struggle for succession after Lenin's death in 1924 and subsequent consolidation of power in the late 1920s.²⁴

Stalin simply became the sole power within a monopoly of power. Lenin's 'testament,' which has been a subject of controversy for years, warned against this outcome.²⁵ But Lenin did not at any time suggest that the Bolsheviks should forsake their privileged political position. Rather, his letter to the Congress could be interpreted as suggesting that leadership should be a collective leadership and not controlled by any one individual in order to prevent a split of the Central Committee. Stalin had concentrated enormous power, but Lenin was not sure he knew how to use that power wisely, besides which Stalin was 'too rude.' Trotsky possessed exceptional abilities, but was too attracted to the purely administrative side of affairs. Zinoviev and Kamenev could not be fully trusted because of their hesitation in October 1917. Bukharin was the most valuable theoretician in the Party and considered by many the favorite of the whole Party, but

he was too scholastic. No one man, in Lenin's assessment, had the characteristics to rule effectively. They must rule collectively and avoid a split. Nevertheless, Stalin was able to outmaneuver his political opponents and consolidate his power by the 1930s.

One of the consequences of Stalin's purge of the 1930s was the creation of a loyal cohort. The average age of members of the Soviet bureaucracy fell drastically as younger individuals assumed their purged seniors' former positions. 'In 1930,' Michael Voslensky points out,

69 per cent of the regional and district secretaries and secretaries of the central committee of the Union's constituent republics had joined the party before the revolution. In 1939, 80.5 per cent had joined the party only after 1924, i.e., after Lenin's death. Of the 1939 secretaries, 91 per cent were under forty; in other words, they were adolescents at the time of the revolution. The figures for the secretaries of regions and towns are similar. In 1939, 93.5 per cent had joined the party only after 1924, and 92 per cent were under forty.²⁶

A comparison of the Seventeenth Party Congress in 1934 and the Eighteenth Congress in 1939 also demonstrate this purge effect. At the 1934 congress 80 per cent of the delegates had joined the Party prior to 1920, but at the 1939 congress 50 per cent of the delegates were under 35 years old. Stalin's purge of the 'Old Bolsheviks' served, among other things, to create a layer of very young and loyal apparatchiks.

In representative democracies government bureaucracies grow slowly over time and members tend to be of various age cohorts. The process of hiring and retiring is continuous, but gradual. The situation in the former Soviet Union prior to Gorbachev was quite different. The Communist Party closely controlled the appointment of personnel to positions of power through the *nomenklatura* system and political patronage. Moreover, since the bulk of the state bureaucracy came to power at about the same time, the same cohort controlled the strategic positions within the bureaucracy. This system could be expected to be extremely stable in its ordinary operations until that cohort began to retire or die of natural causes.

In addition, the Soviet state had been an exceptionally stable autocracy because of its method of succession. The usual route to autocratic power is either military coup or dynasty. A third route avoids many of the problems associated with either the coup or

dynasty models of political succession, and has proven very stable in the few cases that it has been successfully implemented.²⁷ The major characteristic of this system is that a voting body is appointed to determine the autocrat's successor after the autocrat's death or retirement. Like his predecessors, Gorbachev rose to Chairmanship of the Communist Party of the Soviet Union (CPSU) as the result of a Politburo vote.

This system of succession effectively screened candidates for their ability to rule in the interest of the cohort who elected them. At the time of Gorbachev's ascension to power, the Soviet economic bureaucracy consisted of over 400 state committees, union ministries, union-republic ministries and regional ministries and authorities. And, each of these organizations had its own bureaucracy. The Soviet economic bureaucracy employed millions of people and permeated the entire industrial and agricultural systems from top to bottom.²⁸

Many interpreters have viewed Gorbachev's efforts from 1985 to 1991 as a revolutionary challenge to the Soviet bureaucracy.²⁹ In this interpretation, Gorbachev is seen as an enlightened autocrat bent on modernizing and liberalizing the Soviet political economy. Perestroika was said to have a net decentralizing effect on the management of the economy.³⁰ But this 'decentralization' never did represent a movement toward *laissez faire*. The basic structure of the Soviet political economy remained the same.³¹

What Gorbachev was up to can perhaps better be understood as a redistribution of patronage perquisites.³² Unlike his predecessors, Gorbachev faced significantly lower transaction costs in redistributing patronage opportunities because of the demographic transition of the bureaucracy. Finally, by the mid-1980s the cohort which had collectively controlled the bureaucracy since Stalin's rule began to die or retire. With them went the structure of informal quasi-contracts within and between the bureaus which formed the basis of the stability of the Soviet power structure.

Gorbachev liberalized government restrictions in some ways. But much of perestroika seems to have been primarily an effort to reallocate patronage opportunities to consolidate his power base, a rather routine practice of fresh autocrats throughout history. His redistribution of political rents, however, was couched in liberalization rhetoric. The market-oriented rhetoric of the Gorbachev period bore little resemblance to the reality of continued bureaucratic management of the economic system. No serious effort was made to end the domination of the economy by the central government.

Gorbachev's activities, however, unintentionally conflicted with the long-run stability of the Communist political and economic system. He presided over the demise of Soviet state socialism as an unintended consequence of the exploitation of opportunities to reallocate positions of privilege in the Soviet bureaucracy.³³ In other words, Gorbachev's perestroika never was an attempt to change the basic political and economic system of Soviet rule. He was not an agent of change, but rather a guardian of the structure of the old regime – even if populated with new faces.³⁴

THE CLASH OF LOGIC

Conceptually, economic reform is a fairly simple matter. Private property in resources must be established and protected by a rule of law, consumer and producer subsidies must be eliminated and prices must be free to adjust to the forces of supply and demand, responsible fiscal policy should be pursued that keeps taxation to a minimum and reigns in deficit financing, and a sound currency should be established. Introducing such reforms – even within Western economies – is anything but simple. And the major problem is not just another conceptual one of designing the appropriate sequence or plan of reform.

One of the most important insights derived from academic research in modern political economy is the potential conflict that exists between good economics and good politics as discussed above. To reiterate, in democratic regimes, where politicians depend on votes and campaign contributions to remain in office, research has shown that the logic of politics produces a concentrated benefits and short-sightedness bias with regard to economic policy. Popular economic policies are those that will tend to yield short-term and easily identifiable benefits at the expense of long-term and largely hidden costs.

In the formerly communist political economies this argument about the logic of politics can be intensified. The benefits of public policy fell mainly on the only constituency that mattered: the descending layers of the Party bureaucracy that permeated society. From the nice *dacha* to special access to stores, the Party elite were the primary beneficiaries of the system. Economic reform promised to disrupt the old system and yield very real short-term costs. Structural economic reform promised short-term and easily identifiable costs to be born mainly by the Party bureaucracy and long-term and largely hidden

benefits in terms of increased economic efficiency and consumer well-being. The logic of reform was in direct conflict with the logic of politics.

Real reform of the basic structure of the constitution of economic policy *within* any given polity seems to face a daunting task. Endogenous reform seems impossible because it would violate the basic maxims of voluntary exchange since it would require that some individuals, namely current beneficiaries, agree to a Pareto inferior position. Gradual and marginal policy change cannot do the job either. Only a large policy change preceded by an exogenous shock could move the system in the desired direction.

Even though the ruling elite in the former Soviet Union fought real economic reform at every step, they could not repudiate economic reality.³⁵ The Soviet economy had exhausted its accumulated surplus in terms of natural resources and Western technology and was unable to continue to develop.³⁶ The economic situation simply grew worse under Gorbachev and the demand for structural reform grew louder and more threatening to the old system. Glasnost, in addition to the events of 1989 – from Tiananmen Square to the Berlin Wall – mobilized the intellectual and cultural elite into opposition against the Gorbachev government and the Communist Party.³⁷

But an exogenous shock, in the form of either an ideological revolution, a natural disaster or an economic collapse, can precipitate the regime change necessary for reform. The problem with reform within any political and economic system is that, as Mancur Olson argued in his *Rise and Decline of Nations*, as political stability occurs entrenched interests form, which through their rent-seeking activity eventually retard the further economic development of a country.³⁸ Reform in a situation with such entrenched interests is a near impossibility. The logic of reform runs directly contrary to the logic of politics. If the logic of politics is to concentrate benefits on the well-organized and well-informed and disperse costs on the ill-informed and unorganized masses, then the logic of reform is actually to concentrate costs and disperse benefits. As long as the entrenched interests are not displaced, reform measures within a system will continually stall. Empirical illustrations of this simple point can be found in the failure of both Reagan and Thatcher, and the troublesome reform efforts in the Soviet Union from 1985–91.

Another side of Olson's argument, however, points to the window of opportunity that exists when for reasons of an exogenous shock the dominant interest groups are displaced. At such moments, when the

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dominant interest groups are dispersed by some exogenous shock, intellectual entrepreneurs can act in a manner which changes the basic structural rules governing a society. The failed August coup provided the shock necessary.

Liberalization demands legal protection of private property and freedom of entry in the economic arena. Free trade, i.e., freedom of exchange and production, as a principle must be held as an absolute rule of social interaction and be codified in the body of law.³⁹ In order to transit the path from powerful central government to governance structures more amenable to economic freedom the reformers (in both East and West) will need a vision of a workable utopia. Such a transition will require an evolutionary development of ideas and revolutionary political action to overturn vested interests no less dramatic than the previous revolution that got us here in the first place.

CONCLUSION

Gorbachev's dithering with the Soviet economic bureaucracy, while winning him great praise abroad, totally discredited him at home. Elena Bonner, the widow of Andrei Sakharov, argued in November of 1988 that she had lost faith in perestroika. Western intellectuals had not framed their questions concerning the ability of perestroika to succeed correctly. The real question was whether there was anything in content within perestroika that compelled people to believe. 'I always was a believer ...,' she stated, 'but today my faith in perestroika is waning.'⁴⁰ In 1990, Bonner voiced her disillusionment with perestroika in even stronger terms. The credit given to Gorbachev in the West, she argued, was 'false credit.' Perestroika was a vague and ever-changing policy without a goal or even direction. Moreover, Gorbachev had failed to establish any political base for perestroika. After an initial two-year period of success with glasnost - freedom for most prisoners of conscience, changes in emigration and travel policy, disarmament and the withdrawal of Soviet troops from Afghanistan - the ambiguities of perestroika began to undermine efforts at transformation of the Soviet system. All that five years of perestroika brought was empty shelves, decreased production, inflation, budget deficits, unlimited presidential powers and a complete loss of faith in political authority per se.⁴¹

The original program of perestroika did not represent a coherent agenda for economic transformation. Perestroika never was

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formulated in a manner which would introduce the discipline of unfettered markets as was necessary. Rather, decentralization simply meant a movement of the state's economic management functions from the center to lower levels of government supervision, such as the republics. And, destatization did not exactly translate into privatization of state enterprises.⁴² Moreover, perestroika possessed no strategic vision for wresting power from the vested interests of the old regime.

These failings of perestroika as a program for economic transformation are perfectly understandable because the intention never was to introduce market discipline nor was it meant to defeat the vested interests of the old regime. From the beginning to the end, Gorbachev was quite clear that what he intended to accomplish was to modify, not fundamentally change, the Soviet system of state socialism. The goal was to make the Soviet system more humane and more efficient, but not to transform the system into a market economy with a limited government. His rhetoric and, even more so, his actions never suggested otherwise.

As a result, perestroika did nothing to instill trust in the population. Fundamental economic change, however, required that trust be established. Without establishing trust, as will be discussed at length in the next chapter, the economic transformation could not even begin to get off the ground.

- directly benefited from their possession of instruments of political power over the economy
- 35 For a historical treatment of the leading role of the Party in industrial planning see William Conyngham, *Industrial Management in the Soviet Union: The Role of the CPSU in Industrial Decision-Making, 1917-1970* (Stanford: Hoover Institution Press, 1973).
 - 36 See, for example, the discussion in Vladimir Andrie, *Managerial Power in the Soviet Union* (Lexington, Mass.: Lexington Books, 1976), pp. 39-66.
 - 37 See Michael Voslensky, *Nomenklatura: The Soviet Ruling Class, An Insider's Report* (New York: Doubleday, 1984), pp. 68-111.
 - 38 Voslensky, *Nomenklatura*, pp. 127-8 (see Note 37).
 - 39 I do not have space to establish the argument here, but I would assert that the entire equity/efficiency trade-off is mistaken. Income distribution over time tends to spread as individuals from different generations move within different income groups, provided they are not legally prevented from doing so by a rigid caste system. Socialist societies were both inequitable and inefficient. Competition in the free market tends to compel suppliers to increase the quality of their product and offer it at a lower price. Economic competition makes available to average citizens products that only the most wealthy individuals in the previous generation could afford. There simply is no inherent 'economic law' in the operation of competitive capitalism that leads to greater discrepancies in income. Efficiency gains bring with them the cheaper production of goods and services that otherwise would be more costly to produce.
 - 40 For an examination of some of the related issues to recontracting see Paul Hauslohner, 'Gorbachev's social contract,' *Soviet Economy*, 3 (1) (1987): 54-89.

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- 1 Alexis de Tocqueville, *The Old Regime and the French Revolution* (New York: Doubleday, 1955(1856)), p. 167.
- 2 For example, Adam Michnik has argued that:

If, after the dogmatic faith in the benefits of the planned economy, there comes an equally dogmatic faith in the benefits of the market, then we are in trouble . . . [T]he market is not a self-activated mechanism that can replace the economic policy of the state . . . We know the difference between the market as it is seen by Milton Friedman and the market with a human face.

See Michnik, 'The two faces of Eastern Europe,' *The New Republic* (12 November 1990): 24.

- 3 As Ed Hewett points out, the problem that confronted GOSPLAN within the bureaucratic planning system of the Soviet Union was analogous to the bureaucratic problems within US Bureau of Budget. Both bureaucracies attempted to arrive at a consensus by mediating among the

- competing claims of various interest groups. See Hewett, *Reforming the Soviet Economy* (Washington, DC: Brookings Institution, 1988), p. 121.
- 4 See James Buchanan and Richard Wagner, *Democracy in Deficit* (New York: Academic Press, 1977) for an analysis of the legacy of the Keynesian system of activist policy. Also see Charles Murray, *Losing Ground* (New York: Basic Books, 1984) for a discussion of the failure of social policy, James Bennett and Thomas DiLorenzo, *Underground Government: The Off-Budget Public Sector* (Washington, DC: Cato Institute, 1983) and *Destroying Democracy: How Government Funds Partisan Politics* (Washington, DC: Cato Institute, 1985) for an examination of fiscal policy and tax-funded politics. Also see Jeffrey Friedman, 'The new consensus: I. The Fukuyama thesis,' *Critical Review*, 3 (3-4) (Summer/Fall 1989): 373-410, and 'The new consensus: II. The democratic welfare state,' *Critical Review*, 4 (4) (Fall 1990): 633-708, for a discussion of the implications for political philosophy of continuities between 'first world' and 'second world' interventionism.
 - 5 John Kenneth Galbraith, 'The rush to capitalism,' *The New York Review of Books* (25 October 1990): 51-2. Also see John Kenneth Galbraith, *The Culture of Contentment* (New York: Houghton Mifflin, 1992), where he argues that despite the myth of a *laissez-faire* revolution with Reagan, non-intervention has been highly selective. While government spending and activism has decreased in some areas, it has increased in others. Galbraith is quite accurate in his assessment of the situation with regard to the leading role of government in the US economy. The US economy is far from *laissez-faire* capitalism. In fact, the impact of government intervention is felt throughout the entire economic system.
 - 6 For a theoretical explanation of the growth of government see Sam Peltzman, 'The growth of government,' *Journal of Law and Economics*, 23 (October 1980): 209-87. Peltzman explains the growth of government as the outcome of the incentive to use the political process to redistribute wealth. Counter-intuitively, he concludes, with empirical evidence across nations to support his claim, that with the greater equality of private income, the demand for political redistribution increases. In other words, the growth of the 'middle class' in the twentieth century, has been a major factor in the growth of government as this group became more capable of perceiving and articulating their interest in political redistribution. Also see George Stigler, 'Director's law of public income redistribution,' *Journal of Law and Economics*, 13 (April 1970): 1-10, for a discussion of the 'middle class' thesis. In addition, see Robert Higgs, *Crisis and Leviathan* (New York: Oxford University Press, 1987) for a discussion of the erosion of constitutional constraints in the twentieth century and the corresponding loss in economic freedom, and Richard Wagner, *To Promote the General Welfare* (San Francisco: Pacific Research Institute, 1989). Also see F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960) and *Law, Legislation and Liberty*, 3 vols (Chicago: University of Chicago Press, 1973-9) for a philosophical, legal and economic analysis of the failed attempt at constitutional democracy and suggestive proposals to correct the situation.
 - 7 The classic work in the economic analysis of politics is James Buchanan

- and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962). Also see the discussion of the operation of democratic politics found in Murray Rothbard, *Man, Economy and State*, vol. 2 (Los Angeles: Nash Publishing, 1970(1962)), pp. 775-6 and *Power and Market* (Kansas City: Sheed, Andrews & McMeel, 1977), pp. 189-99.
- 8 See Alexander Hamilton, James Madison and John Jay, *Federalist Papers* (New York: New American Library, 1961(1788)), nos 10, 47-51. Also see the papers discussing this issue in James Gwartney and Richard Wagner (eds) *Public Choice and Constitutional Political Economy* (Greenwich, CT: JAI Press, 1988).
- 9 On the history of the Federal Reserve System see Murray Rothbard, 'The Federal Reserve as a cartelization device: the early years, 1913-1930,' in Barry Siegel (ed.) *Money in Crisis* (Cambridge, MA: Ballinger Publishing, 1984), pp. 89-136, and Gabriel Kolko, *The Triumph of Conservatism* (New York: The Free Press, 1963), pp. 139-58, 217-54. With regard to antitrust policy see Kolko, *The Triumph of Conservatism*, pp. 255-78, James Weinstein, *The Corporate Ideal in the Liberal State, 1900-1918* (Boston: Beacon Press, 1968), pp. 62-91 and Martin Sklar, *The Corporate Reconstruction of American Capitalism, 1890-1916* (New York: Cambridge University Press, 1988). Also see Dominick Armentano, *Antitrust and Monopoly* (New York: Wiley & Sons, 1982) and *Antitrust Policy* (Washington, DC: Cato Institute, 1986) and Thomas DiLorenzo, 'The origin of antitrust: an interest group perspective,' *International Review of Law and Economics*, 5 (1985): 73-90.
- 10 But, since these *de facto* owners did not have *de jure* ownership they could not reap capital gains from efficient resource use. As a result, they faced the same incentives that government and non-profit managers face in the West. For a discussion of the behavior of bureaus within a representative democracy see William Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine, 1971). Because of the principal/agent problem discussed in Chapter 4, bureaucratic inefficiencies can easily result. Bureaucracies exist in order to supply goods and services to the public, but they do not report directly to the consuming public of those services. Rather, bureaus report to elected officials, who in a frictionless political environment would represent the true preferences of the citizens. But, because of the existence of political 'failures,' such as rational abstention and rational ignorance, voter preferences are not conveyed in an unambiguous manner. The distortion allows bureaus to escape close monitoring by the citizens. Since bureaucrats cannot usually benefit monetarily from their bureaus' monopoly position as the sole supplier of some public service, they tend to reap those benefits in many other indirect ways. Perquisites at the office is one manifestation, but perhaps the main source of inefficiency is the incentive to maximize the bureaus' budget. In other words, bureau heads face an incentive to expand the size of their bureau well beyond what would be its optimal size, because the larger the bureau the more prestige, power, influence, reputation and opportunity for promotion.
- 11 For an analysis of these failures see James Buchanan, 'Our times: past, present and future,' in Martin J. Anderson (ed.) *The Unfinished Agenda:*

- Essays on the Political Economy of Government Policy in Honour of Arthur Seldon* (London: Institute for Economic Affairs, 1986), pp. 29-38, and 'Post-Reagan political economy,' in Alan Peacock (ed.) *Reconomics and After* (London: Institute for Economic Affairs, 1989), pp. 1-16.
- 12 Anthony deJasay, *The State* (Oxford: Basil Blackwell, 1985), p. 232.
- 13 See Milton and Rose Friedman, *Tyranny of the Status Quo* (New York: Harcourt Brace Jovanovich, 1984), pp. 41-51.
- 14 See Racquel Fernandez and Dani Rodrik, 'Resistance to reform: status quo bias in the presence of individual-specific uncertainty,' *American Economic Review*, 81 (5) (December 1991): 1146-55.
- 15 John Kenneth Galbraith ('The rush to capitalism,' see Note 5) is certainly concerned, but so are many other economists, such as Alec Nove. Nove has published his concerns *within* the Soviet Union. See Nove, 'The limits of full economic accountability,' *Problems of Economics*, 32 (2) (July 1989): 25-35. This article was originally published in *Ekonomika i Organizatsia Promyshlennogo Proizvodstva*, no. 9 (1988).
- 16 See, for example, Stanley Fischer and Alan Gelb, 'The process of socialist economic transformation,' *Journal of Economic Perspectives*, 5 (4) (Fall 1991): 91-105.
- 17 See, for example, Senator Bill Bradley, 'We can't afford not to help East Europe,' *Washington Post* (30 March 1990): A23. Former President Richard Nixon burst back on to the intellectual and political scene in 1992 with his plan for aid to Russia. See Richard Nixon, 'The challenge we face in Russia,' *Wall Street Journal* (11 March 1992): A14. Nixon chided the presidential candidates for ignoring the most important issue since the end of the Second World War. He argued that a 'new despotism' of Russian nationalists would emerge unless Yeltsin succeeded. Nixon argued that his plan did not amount to charity, but was in the self-interest of the US. If Russia successfully transformed into a market economy, then the US would gain billions in trade and millions of jobs for its citizens. Also see the editorial, 'Russia acts, US slumbers,' in *The New York Times* (25 March 1992): A22, for the general sentiment of the intellectual establishment. But see Doug Bandow, 'Why waste aid on Russia?', *New York Times* (26 March 1992): A23 for a counter-argument which suggests that we re-examine the IMF's record. For an analysis of the economic consequences of the Marshall Plan see Tyler Cowen, 'The Marshall Plan: myths and realities,' in Doug Bandow (ed.) *US Aid to the Developing World* (Washington, DC: Heritage Foundation, 1985): 61-74.
- 18 See *The New York Times* (2 April 1992): A1, A10-11. But see the reports of conflict and confusion over the package in *The New York Times* (9 April 1992): A1, A10. Also *The New York Times* (13 April 1992): A12, reports that developments at the Congress of People's Deputies concerning backtracking by the Russian government on economic reform could delay Western aid. But, as reported in *The New York Times* (15 April 1992): A1, the reform government reached a compromise with the Congress. The Congress adopted a declaration that accepted 'in principle' the economic reforms of the Yeltsin government. Also see *The New York Times* (16 April 1992): A9.
- 19 See P. T. Bauer, *Dissent on Development* (Cambridge: Harvard

- University Press, 1976) for a critique of development planning. Also see Peter Boettke (ed.), *The Collapse of Development Planning* (New York: New York University Press, forthcoming).
- 20 The conviction is already evident in some reform economists, such as Larisa Piyasheva, who has stated that perestroika was nothing but a search for Western credit to give socialism a shot in the arm. 'Our economic system,' she argued at a Moscow conference, 'is wrong. The principles of socialist economics are wrong . . . "No compromise" is the new slogan.' As quoted in Paul Craig Roberts, 'Seven days that shook the world,' *National Review* (15 October 1990). Also see the profile on Piyasheva by Cathy Young, 'Russia's real radicals: creating a Moscow market,' *Reason* (April 1992): 37-41.
 - 21 See the discussion of the political problems with economic reform under Gorbachev in Timothy Colton, 'The politics of systemic economic reform,' *Soviet Economy*, 3 (2) (1987): 145-70. Colton argues that Gorbachev's efforts should be held up against three yardsticks: (1) Brezhnev's record, (2) reform efforts in other communist countries, such as Hungary and China and (3) Gorbachev's own rhetoric. Only in comparison to Brezhnev does Gorbachev's record of reform appear to do reasonably well. Both Hungary under Janos Kadar and China under Deng Xiaoping, as well as Gorbachev's own rhetoric, out-perform to a considerable degree the reform efforts that were actually adopted under Gorbachev.
 - 22 Vasily Selyunin, 'Sources,' *Novy Mir*, no. 5 (May 1988), translated in *The Current Digest of the Soviet Press*, 40 (40) (2 November 1988): 17.
 - 23 The events in Peru with President Alberto Fujimori announcing a self-coup on 5 April 1990 are a striking example of an authoritarian coup in the name of liberalization. His stated intention is to push through economic reforms, stop terrorism, write a new democracy and establish in Peru a vibrant democracy. See *The Economist* (11 April 1992): 41.
 - 24 See A. J. Polan, *Lenin and the End of Politics* (Berkeley, CA: University of California Press, 1984) for a discussion of Lenin's political thought and its imprint on the Soviet system. Also see Jerry Hough and Merle Fainsod, *How the Soviet Union is Governed* (Cambridge: Harvard University Press, 1979) and Richard Sakwa, *Soviet Politics: An Introduction* (London: Routledge, 1989).
 - 25 See Lenin's 'Testament' (December 1922), in Robert V. Daniels, *A Documentary History of Communism*, vol. 1 (New York: Vintage Books, 1960), pp. 223-5.
 - 26 M. Voslensky, *Nomenklatura: The Soviet Ruling Class* (New York: Doubleday, 1984), p. 61.
 - 27 See Gordon Tullock, *Autocracy* (Boston: Kluwer, 1987), pp. 158-9, for a discussion of this third route.
 - 28 See Paul Gregory, *Restructuring the Soviet Economic Bureaucracy* (New York: Cambridge University Press, 1990), pp. 1-8.
 - 29 See, for example, John Gooding, 'Perestroika as a revolution from within: an interpretation,' *The Russian Review*, vol. 51 (January 1992): 36-57.
 - 30 See Ed Hewett, *Reforming the Soviet Economy* (Washington, DC: Brookings Institution, 1988), p. 326.

- 31 See the criticism of Gorbachev's economic plan in Gertrude Schroeder, 'Gorbachev: "radically" implementing Brezhnev's reforms,' *Soviet Economy*, 2 (4) (1986): 289-301.
- 32 This thesis is developed in Gary Anderson and Peter Boettke, 'Perestroika and public choice: the economics of autocratic succession in a rent-seeking society,' *Public Choice* (1992), forthcoming.
- 33 Edgar Kiser and Yoram Barzel argue that the protodemocratic institutions of England, such as the Magna Carta, Parliament and an independent judiciary evolved as the unintended consequence of the self-interested wealth-maximizing behavior of the rulers and some of their subjects. See Kiser and Barzel, 'The origins of democracy in England,' *Rationality and Society*, 3 (4) (October 1991): 396-422.
- 34 There is abundant evidence of a massive turnover in Soviet officials during the Gorbachev era. By 1985-6, the average age of Politburo members dropped by six years. Sharp drops in age were also recorded in the Party Secretariat and on the Presidium of the Council of Ministers. Middle-level positions within the Soviet government also experienced drastic personnel changes. The number of changes in offices recorded were 'the most sweeping of the entire post-Stalin period.' See Timothy Colton, *The Dilemma of Reform in the Soviet Union* (New York: Council on Foreign Relations, 1986), pp. 89, 114-15.
- 35 For an informative journalistic account of the problems that the nascent private market 'cooperators' confronted in dealing with and outmaneuvering the Soviet bureaucracy see A. Craig Copetas, *Bear Hunting with the Politburo* (New York: Simon and Schuster, 1991). The debate over perestroika, Copetas states, at times appeared as if individuals were 'debating whether or not to invent the wheel while airplanes buzzed overhead' (p. 70).
- 36 For an analysis of the devolution of the Soviet system see Peter Murrell and Mancur Olson, 'The devolution of centrally planned economies,' *Journal of Comparative Economics*, 15 (2) (June 1991): 239-65. Murrell and Olson argue that the decline of the former socialist economies resulted because of an institutional sclerosis that evolved as the encompassing interest of the leader for economic growth was muted by the narrow interest of subordinates.
- 37 The most visible 'liberal' democratic leaders were Boris Yeltsin, Gavril Popov and Anatoly Sobchak. If these three were the political voice, Andrei Sakharov was the soul of the liberal opposition. One outgrowth of the emergence of a liberal intellectual and political movement was the writing of political memoirs by Soviet politicians. See, for example, Boris Yeltsin, *Against the Grain* (New York: Summit Books, 1990), Eduard Shevardnadze, *The Future Belongs to Freedom* (New York: The Free Press, 1991) and Anatoly Sobchak, *For a New Russia* (New York: The Free Press, 1992).
- 38 Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982). Olson applies his theoretical argument concerning the logic of collective action to the Soviet-type system in 'The logic of collective action in Soviet-type societies,' *Journal of Soviet Nationalities*, 1 (2) (Summer 1990): 8-27.

- 39 See F. A. Hayek, *Law, Legislation and Liberty*, vol. 1, pp. 56-65 (see Note 6). The value of freedom of choice, Hayek argued, lies in the opportunities it provides for the discovery of unforeseen and unpredictable possibilities. As such, the loss suffered from restrictions on freedom of choice is not known. Therefore, freedom of choice must be held as a principle that must not be sacrificed for particular pragmatic concerns of a given time. If freedom of choice, instead, is treated as a matter of expediency, then it will lose out to coercive interference since we hardly know what concrete benefit freedom of choice will provide in any particular instance.
- 40 See the roundtable discussion between Andrei Sakharov, Yelena Bonner, Stephen Cohen, Ed Hewett and Victor Winston, 'Interpretations and perceptions of perestroika,' in Ed Hewett and Victor Winston (eds) *Milestones in Glasnost and Perestroika* (Washington, DC: Brookings Institution, 1991), p. 145.
- 41 See Yelena Bonner, 'Five years of perestroika: "bloodless revolution" or revolting development?,' *Glasnost* (July-September 1990): 4-8.
- 42 See E. Iasin, 'Destatization and privatization,' *Kommunist*, no. 5 (1991), translated in *Problems of Economics*, 34 (8) (December 1991): 5-22. estatization meant that the transition to a mixed economy would be accomplished through decentralized management without changing the ownership structure. State enterprises, for example, would be leased. The owner of fixed capital - the state - would remain the same, but the output of working capital would belong to the leasee. Privatization, on the other hand, represented destatization envisaged as the transfer of state property to other owners.

6 CREDIBILITY IN SOVIET REFORMS

- 1 William Shakespeare, *The Merchant of Venice* in *The Complete Works of William Shakespeare*, vol. 2 (New York: Bantam Books, 1988), Scene 4.1.
- 2 Andres Aslund, for example, even before the August coup concluded that 'Looking back at Soviet economic policy during the second half of the 1980s, it is difficult to avoid the impression that virtually every possible mistake has been made. Perestroika has proved to be an utter economic failure.' Aslund, *Gorbachev's Struggle for Economic Reform*, 2nd edn (Ithaca, NY: Cornell University Press, 1991), p. 225.
- 3 For interesting interpretative essays on the events in the former Soviet Union see Martin Malia, 'A new Russian revolution?,' *New York Review of Books* (18 July 1991), and 'The August revolution,' *New York Review of Books* (26 September 1991).
- 4 Mikhail Gorbachev, *Perestroika* (New York: Harper & Row, 1987), p. 33.
- 5 See Mark Harrison, 'Why did NEP fail?,' in K. Smith (ed.) *Soviet Industrialization and Soviet Maturity* (London: Routledge, 1986), p. 26, where he argues that the rejection of the NEP simply reflects 'the needs of a state committed to a rapid, large-scale industrialization to reduce the commitment of resources to agriculture and to enforce reduced living standards on both town and country.'
- 6 Alec Nove, 'The logic and cost of collectivization,' *Problems of Communism* (July-August 1976): 59.

- 7 See, for example, Stephen Cohen, *Bukharin and the Bolshevik Revolution* (New York: Oxford University Press, 1981(1973)), and Nikolai Shmelev and Vladimir Popov, *The Turning Point* (New York: Doubleday, 1989).
- 8 An attempt at developing the revisionist interpretation is made in Peter Boettke, *The Political Economy of Soviet Socialism: The Formative Years, 1918-1928* (Boston: Kluwer, 1990), pp. 34-8, 113-46.
- 9 See, for example, Israel Kirzner, 'The perils of regulation,' in *Discovery and the Capitalist Process* (Chicago: University of Chicago Press, 1985).
- 10 The classic statement of this problem is F. A. Hayek, 'The use of knowledge in society,' in *Individualism and Economic Order* (Chicago: University of Chicago, 1980(1948)). Also see Don Lavoie, *Rivalry and Central Planning* (New York: Cambridge University Press, 1985) and *National Economic Planning: What is Left?* (Cambridge: Ballinger Publishing, 1985), pp. 51-92.
- 11 See Milton Friedman, 'A monetary and fiscal framework for economic stability,' in *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953), p. 145.
- 12 The argument for rules rather than discretion can also be linked to the discussion of competitive market processes above. Since economic processes are in a constant state of flux, public policy that would also be in a discretionary state of flux would simply compound the instability and uncertainty of social arrangements. Fixed policy rules ground the constant flux of economic activity with some certainty. A variation of this argument with regard to the law is developed by Mario Rizzo, 'Law amid flux,' *Journal of Legal Studies*, 9 (2) (March 1980): 291-318.
- 13 See Geoffrey Brennan and James Buchanan, *The Theory of Public Choice* (New York: Cambridge University Press, 1985), pp. 82-96.
- 14 See Tyler Cowen, 'Self-constraint versus self-liberation,' *Ethics*, 101 (January 1991): 360-73, for a discussion of these issues associated with individual choice.
- 15 Clear presentations of this problem for public policy are presented in Herb Taylor, 'Time inconsistency: a potential problem for policymakers,' *Business Review (Federal Reserve Bank of Philadelphia)* (March-April 1985): 3-12, and 'Rules v. discretion,' *The Economist* (2 March, 1991): 71-2.
- 16 A classic defense of discretionary policy can be found in Abba Lerner, *The Economics of Control* (London: Macmillan, 1944).
- 17 See F. Kydland and E. Prescott, 'Rules rather than discretion: the inconsistency of optimal plans,' *Journal of Political Economy*, 85 (3) (1977): 473-91.
- 18 Mikhail Heller and Aleksandr Neckrich, *Utopia in Power* (New York: Summit Books, 1986), p. 217.
- 19 Boris Pasternak, *Doctor Zhivago* (New York: Signet Books, 1958), p. 387.
- 20 One exception to this is John Litwack, who has stressed that within the institutional arrangement of perestroika the leadership was unable to establish a credible commitment to liberalization policies. See Litwack, 'Discretionary behavior and Soviet economic reform,' *Soviet Studies*, 43 (2) (1991): 255-79.