
1. The Theoretical Challenge

This book is a collection of ten papers presented at the Economic Transition in Historical Perspective: What can be Learned from the History of Economics conference, held in Cracow, Poland on September 27-19, 1998. The conference was co-sponsored by (Cracow) Jagiellonian University (where one of the editor, Janina Rosicka, holds the chair of History of Economic Thought), Cracow Academy of Science and St. John’s University (where the other editor, Charles M.A. Clark, is professor of economics). The objective of the book is clearly stated by the editors in the preface: the subject of economic transition in Eastern and Central European countries “is one of the most important developments in economic history; [however], surprisingly few analysts of these phenomena have looked to the past for assistance in understanding this process [ ... ]. Yet there has been very little written on current economic transitions from the perspective of the great economists. It is this glaring omission that is the inspiration for this volume of essays” (p. x).

The project of the book is ambitious indeed. The phenomenon of post-communist transition raises important questions: can these processes take place spontaneously? And, if not, how should they be governed? What direction should be impressed on them? Is transition desirable or even necessary? Is the ending system effectively superior to the starting one? And in what sense? Is transition to be considered as a price to pay in order to switch to this (supposedly) superior system, or is it an improvement itself on the previous mode of economic organisation?

The theoretical challenge is one between history of economic thought and economic analysis. The discussion of the great debates on previous processes of transition does not surely automatically answer these questions for the obvious reason that the historical context is a different one, but reminds us of the important theoretical results obtained (and sometimes forgotten) in the history of economic analysis. The contributors of the book are thus challenged not simply to present the thought of the great thinkers, but to do it in a critical way, by discussing the aspects that have been legitimately criticised in the economic debate and those that have instead demonstrated to
be valid, and by explaining why these theories might still be relevant in the actual debate on post-Communist transition.

2. The Contributions of the Book

As the editors recognise, the economists considered in the volume constitute only a small sample of the economists that have dealt with the issue of economic transition. In particular, the book focuses on the contributions of Plato, Adam Smith, Friedrich A. von Hayek (and not John Stuart Mill, as announced in the preface), Karl Polanyi and John Paul II, outlining both their economic attitudes towards transition and their moral perspective.

A paper of Janina Rosicka on Plato and his understanding of transition opens the book.

The following five papers deal with different aspects of the important contribution of Karl Polanyi. The paper by Eric R. Hake and Walter C. Neale is an interesting discussion of Polanyi’s Great Transformation in the context of the current transformations in Central Europe.

Chapters three and four – the former by António Almodovar and Maria de Fátima Brandão, the latter by Eyüp Özeren – are comparisons of Polanyi’s and Smith’s views on institutions. In both papers, the theories of Smith and Polanyi are not contrasted, as is generally the case, but presented as theoretically compatible. In particular, Almodovar and Brandão compare Smith’s advocacy of the system of natural liberty – according to which market transactions without government direct intervention produce the best social effects – and Polanyi’s preoccupation about the dangers produced by the processes of commodification of labour, land and money for the survival of the civilised society. In this perspective they interpret the contributions of Smith and Polanyi as compatible sources of thinking about the danger of planning and uncontrolled markets, respectively.

Özeren develops an original interpretation of Smith’s work along institutional lines. Although Smith referred to the market system as a ‘natural’ one, the author argues that, by acknowledging that, in fact, such a system had never existed in its pure form, the Scottish economist inadvertently disclosed its essentially artificial nature. With this peculiar reading of Smith, the author then discusses the differences with Polanyi’s conception of the market society as artificially instituted, and proposes “to build up a common ground on which an institutional theory of transition can eventually be erected” (p. 64).

In chapters five and six, William C. Schaniel in one case, and Dell Champlin and Ann Jennings in the other, discuss the peculiarity of money and labour commodities (‘fictitious commodities’ in Polanyi’s words) in capitalism. Schaniel, in particular, reconstructs the historical process through which money has become a peculiar commodity not produced for sale (or perhaps not produced at all in the literal sense), and stresses that there are no neutral monetary policies, nor are there neutral financial structures.

Champlin and Jennings develop Polanyi’s analysis of the central role of a free market for labour in the process of establishing a proper capitalist system. In this perspective, they show how unemployment, falling wages, inequalities and job insecurity experienced by Central and Eastern European countries are simply consequences of the process of commodification of labour. The authors also criticise neoliberal policies offered by the IMF, the World Bank and the OECD for prescribing only adjustments on the supply side of the labour market (so to put workers in conditions of adjusting to whatever job offer) and not also on the demand side.

In the following chapter, Ana Bela Nunes and Nuno Valério claim that there are three main paths to capitalism, namely a gradual transformation of traditional economies, dismantling of war economy schemes and failures of socialist centrally planned economies. The first path is discussed by surveying the main theoretical approaches developed in the economic literature. According to the authors, instead, the other two paths remain mainly theoretically unexplored theoretically, and are thus examined by means of factual analysis. Their conclusion is that the ever growing complexity of human societies and their ever growing economic integration produce processes of convergence to capitalism that no social resistance can impede in the long run, capitalism being the most efficient economic system.

The eighth chapter – by Janina Godłowska – analyses the role of Hayek’s thought in the debate developed in Poland when, in 1989, the stabilisation programme called the Balcerowicz Plan settled a new direction of changes in the political system. In the author’s reconstruction, different aspects of Hayek’s thought were discussed: on the one hand the content of the Balcerowicz plan was defended on the basis of Hayek’s liberal doctrine; on the other hand, however, the logic itself of introducing reforms from the outside was criticised according to Hayek’s concept of rationalistic constructivism.

In chapter nine, Charles M.A. Clark criticises the dogmatism of neoclassical economics and its pretence of being a universal science, and discusses the roles that the Catholic social thought and its main moral values might play in the post-Communist transition.

Finally, in chapter ten, Pedro N. de F.L. Teixeira reconstructs the transition that took place in Portugal with the liberal revolution of 1820. The discussion runs through the theoretical debate on the economic role of the state as it had developed before 1820 and the new theoretical contributions set in motion by the revolution. His analysis focuses on the industrial sector, the criticisms devoted to the corporations of arts and the royal manufactures, and the nostalgic neo-mercantilist claims emerged soon after the liberal transition.

It is not easy to appraise the general success of the book in answering the ambitious challenge launched by the editors, the approaches of the different authors being very heterogeneous. To some extent this is perhaps the consequence of the object itself of the analyses of the thinkers considered – Polanyi’s discussion of the transformations taking place in the nineteenth and twentieth century in Europe being evidently more easily related to the actual processes of transition than Plato’s analysis of Atlantis and Old Athens. To some other extent, however, I think this is also due to the different critical attitudes of the contributors of the book with respect to the theories examined.

To begin my critique, let me notice that the sample of economists considered is, in my view, very peculiar. Firstly, there is no trace of Marx’s criticism of capitalism and its mystified representations offered by political economy – a curious omission indeed, if we think that not only is Marx’s theory perhaps the most radical criticism of the system towards which the post-Com-
3. The Economics of Plato

In Rosicka's detailed reconstruction, Plato's theory can be understood as an attempt to answer two questions: "what is the proper order of civilization?" and "what is disorder?" (p. 1). Although with his discussion of the ideal state, Plato clearly paid more attention to order than disorder, and although this part of Plato's thinking about the ideal state has been carefully examined by historians of political and economic thought, according to Rosicka, Plato's views on disorder form in fact a coherent, but still unexplored, economic theory. Plato's conception of disorder is to be understood as a transition from an economic order to another. Beside the Republic and the Laws (much debated in the analysis of the ideal state), Rosicka focuses on the cosmology expounded in the Timaeus and the description of Atlantis and Old Athens provided in the Critias.

Transition is a period between two different modes of human existence: in the first one, people live in isolation in mountains; in the second one, they live in community in lowlands. Mountains are not fertile, which is the ultimate economic reason why individuals can survive only in isolation and life in community cannot develop. Mountain people are forced to hard work and are deprived from freedom (understood by Plato as "time for seeking knowledge and for leisure" - p. 6). Mountain people do not thus develop intellectually, but, on the other hand, do not become corrupted either. On the contrary, lowlands are fertile and there is space for economic and social development.

There are thus two kinds of transition: one from the mountains to the lowlands, the other from the lowlands to the mountains. Both these transitions, in Plato's description, are caused by an external cosmic event: a deluge. Mountain people after a deluge try to overcome their isolation and establish a community. The development of civilisation in the lowlands, however, produces internal contradictions in the system. It is this second kind of transition that Plato studies carefully in the attempt to admonish contemporary Athenians of the menaces of the lowland civilisation and to suggest how to sustain the period of true abundance as long as possible. Through the examples of Old Athens and Atlantis, Plato tells a story of harmonious relations and abundance, preserved by autarky and simple reproduction. However, this period of abundance tends to become one of overabundance: the division of labour develops and wealth and population grow; the abundance transforms the 'healthy town' into 'luxurious town'. In this process, people penetrate the whole space (topos) of the lowlands. Once all the space of the lowland is filled, lowlands abundance can no longer satisfy the needs of a growing population: congestion appears and fertility decreases. This period of overabundance creates social differences and the state becomes in fact split into two states: a rich one and a poor one. Wars and conquest of new lands can delay the day of reckoning, but this cannot be avoided. A deluge (sent by the Gods as punishment for living contrary to their dictates) will put an end to this contradictory development, destroying lowlands civilisation and leaving safe only the mountain people.

In this analysis, the author gives ample space to Plato's conception of moral values, his prescriptions about economic virtue as the only rules of individual behaviour compatible with the period of true abundance, and his persuasion that both poverty and wealth promote subversive behaviour. This reconstruction of Plato's view on transition is explained by the author as being part of his general history of the macrocosm, to be understood as a "zigzag line leading from overabundance to harmony" (p. 4). From an economic perspective, the author shows that in his analysis of transition Plato anticipated ideas then developed by Malthus, Veblen and Hirsch.

To my opinion, the main problem with Rosicka's paper is that her discussion of Plato is not critically developed, nor does the author suggest how Plato's theory might be relevant for the actual processes of transition, which is all but self-evident: for instance, at a macroeconomic level, in Plato's story, "on the surface, in the transition, the welfare increases; there are more commodities, more wealth, and more satisfaction" (p. 15), which is not precisely what has happened in Central and Eastern Europe.

The author maintains that "[Plato's] theoretical arguments are verified or confirmed by means of the historical examples of Atlantis and Old Athens". However, firstly, the principle that the validity of a theory can be proven by means of historical examples is open to criticism. Secondly, if one of these "historical examples" is a myth narrated by Plato himself (the debate on the true story of Atlantis is still open), the verification is not very rigorous: to take Plato's story as proof of the validity of Plato's theory is a strange self-referential type of demonstration indeed.

The fact that Plato anticipated Malthusian, Veblenian and Hirschian theoretical elements is presented as a proof of the relevance of Plato's theory. However, this is just to move the problem from Plato to Malthus, Veblen and Hirsch: after all, if we consider Malthus, his theory of population has been the object of controversies in the economic literature, and can hardly be considered as an explanation of the failure of twentieth century real socialist systems. It almost seems that to have anticipated aspects of Malthus's theory be itself a source of teaching.

Only in the last few lines does Rosicka pose the question if "Plato's theory [was] a true one" (p. 24). Her answer is positive: "the last archaeological investigations of Maya's culture provide evidence that an ecological catastrophe (namely the lack of land) was the cause of Maya's decline" (p. 24). I am not sure that this effectively proves that Plato's theory was true, but I still do...
not see the relation with Central Europe post-communist transition and, more generally, with transition to capitalism.

4. The Economics of John Paul II

In his paper on Catholic social thought, Clark notices that advises of Western governments and international agencies in Central and Eastern European countries in transition have been almost exclusively based on neoclassical economics. However, the author maintains, neoclassical economics is "useless for understanding and giving advice on the important issues relating to economic transition" (p. 123), since this problem "is more cultural, historical and spiritual, than it is economic, three factors that neoclassical economic theory cannot, by its very nature and substance, include in its analysis" (p. 123).

Clark's criticism of neoclassical economics is mainly methodological and is rooted in the theoretical perspective of institutional economics (of which Clark is an important exponent). Neoclassical theory is not based on empirical observations, but on an unrealistic (incorrect) conception of human nature (in which behaviours are deterministic and there is no real choice) and an erroneous conception of the structure and function of prices and markets. Neoclassical economics, in its search of 'universals', cannot include historical and social context into its analysis, for this would compromise its pretense of being a science on par with physics. Methodological individualism reflects a mechanical and individualistic view of society, which hides in fact an ideological individualism in the moral sphere. Hedonism and the atomistic view of human nature produce a conception of the 'ideals' of society and a definition of what is the 'good', according to which the market is the sole expression of society's values, and economic efficiency (with no mention of distribution and other social effects of economic interaction) is the sole criterion to appraise the success of society. Clark's conclusion is that neoclassical economics is a "pseudo-religion" (p. 125), which "although has the pretence of being a science [...] is clearly a faith based discipline" (p. 125).

As an alternative to this useless approach, the author suggests that Catholic social thought offers a very useful perspective for the issues of transition. Catholic thought does not hide its moral values. Instead it is "openly and explicitly based on a specific vision and set of value judgements" (p. 130). The theoretical references are those of the Old Testament, the Gospels, the Encyclicals and other Church documents. At the core of the Catholic view of individual and society is the idea of the 'common good', defined by Pope John XXIII as "that which embraces the sum total of those conditions of social living, whereby men are enabled more fully and more readily to achieve their own perfection" (p. 130). Economic policy is then understood as an instrument to promote the common good, enhance human dignity, protect human rights and guarantee participation in the economic life of society. "Humans can never be treated as means to an end, for they are the ends. The treatment of workers as mere commodities to be used to maximise profits is objectionable" (p. 131).

The paper goes on by discussing the adherence of Catholic thought to the principle of subsidiarity (according to which if a task can be equally carried out by small or large organisations, the smaller one is preferable), the importance of considering private property (and the privatisation issue) on a case by case basis, without being blinded by ideology, and the central role of solidarity (which, in the economic realm, implies the priority of labour over capital). With this moral conception, the author explains the danger of financial speculation for being hardly compatible with the common good, and the responsibility of the state in this matter. His conclusion is that the values and vision implicit in neoclassical economics, grounded in extreme individualism and materialism, are immoral and that instead Catholic vision and values support social order and direct social development towards a just society.

Clark's criticism of neoclassical dogmatic methodology and hidden ideology goes well beyond the issue of transition (perhaps the problem is that neoclassical economics continues to proceed on its own way with no respect of the criticisms pointed out in the history of economic thought). However, what I find curious is that the institutionalist author develops this criticism from a religious perspective. Clark criticises the research of 'universal' by neoclassical economics, but does not see that precisely in this claiming of universality the Church and neoclassical economics are the very same thing. After having convinced the reader that neoclassical economics is just a form of religion whose God is the market and whose validity is an act of faith, Clark's suggestion is to dismiss this false God and to go for the true one: the Catholic God! But even admitted that the neoclassical God is a false one, why precisely the Catholic should be the true one? After all, the world is full of people claiming that their religion (and the morality it entails) is the right one. Therefore, why should one consider precisely the values of Catholicism as a guide for the transformations of post-Communist societies? And, given that the author asserts (but does not argue) that Marxism too is a pseudo-religion (p. 125), what is his conception of social progress in Eastern Europe: the move from one religion to another? And what is his conception of economic theory: the search of the best dogmas?

If, as I guess, religion and science are hardly compatible, one possible way to save Clark's argument is by considering his discussion of religion as an investigation in the domain between economics and ethics. However, even in this case, the whole argument is questionable. The author condemns the values of individualism and materialism for being incompatible with the Catholic conception of the 'common good', and, from this perspective, argues that they are immoral. However, what is moral and immoral simply depends on the definition of the 'common good'. Therefore, if the problem is a purely ethical one (what is good), in the same way of our author, a neoclassical economist might argue that it is the Catholic vision and values to be immoral for being incompatible with the neoclassical definition of the common good (Pareto efficiency, based on individualism and materialism).

The author recognises that "the Catholic social thought does not offer an alternative economic theory from which to analyse and understand the problems of transitional economies. What it offers is a 'vision' from which to start such a task, a moral compass to direct researchers and policy makers towards promoting a just society" (p. 132). However, if the lesson of the
paper is to be a moral one, why does Clark criticise neoclassical economics? He should criticise instead the ideology and morality hidden in neoclassical economics. As a matter of fact, the author shows that neoclassical economics hides a moral and ideological conception, but he does not criticise this conception. Solidarity is assumed to be superior to individualism (an ethical position that, personally, I share, even though my morality is far from that of Catholicism). The principles of human dignity, human rights and participation are dogmatically defended just by affirming that U.S. Bishops have stated them in Economic Justice for All - as if their defence had necessarily to do with God (and, more generally, as if it were necessary to refer to Catholic authorities to support particular ethical principles). Therefore, in my opinion, even if interpreted as a contribution in the domain of ethics, the paper has not much to teach (unless one follows the predications of the Church as a simple consequence of her faith in God).

5. The Great Transformation after Polanyi

In their paper on Polanyi, Hake and Neale present the two important transformations that are the object of Polanyi’s main book, the first in Britain at the beginning of the nineteenth century with the institution of the Speenhamland system of outdoor relief in 1795, the second in Europe in the period between the two World Wars. To these, the authors add a third transformation, involving the whole globe, put in place through the IMF/World Bank policies in the 1970s, whose most important aspects concern the transformations in Central and Eastern Europe since the demise of the former Soviet Union. In line with Polanyi’s analysis, the authors point out that institutions, to greater or lesser degrees, are consciously created and their change is a complex process influenced by specific historical circumstances and the diffusion of a particular ideology. As Polanyi described, in the first transformation, the emergence of a self-regulating market system was all but a spontaneous process, which required that markets be instituted for land, labour and money capital and which was ideologically directed by the “liberal fallacy that man and land are commodities created for purchase” (p. 29). This transformation “has allowed the values of the market to become the sole ideology driving all human activities” (p. 29). After a period in which the dominant ideology became that of the restoration of the international system as it had existed before the First World War (the second transformation), according to Hake and Neale, the actual third transformation is again based on ‘our obsolete market mentality’, which assumes that there is one economic model and one medicine for all ills: the market.

As Polanyi stressed, moreover, in the process of institutional change, beside formal institutions, equally important is the emergence of informal rules letting the former work. This process, however, is a complex one, characterised by counter-movements, as segments of society resist the conversion of their life and the abolition of their folkviews. In this perspective, the authors focus on the transformations taking place in Poland (in which the economic impact of the Balcerowicz Plan on the agriculture sector gave rise to strong resistance of the Polish farmers, notwithstanding the diffusion of the ideolo-

6. History of Economics without Economic History

The historical perspective of the other contributors of the book is in some cases substantially different from that of Hake and Neale. In particular, the papers of Almodovar and Brandão, Nunes and Valério, and Godlew-Legidz are all based on the idea that history ultimately tells what is possible and what is impossible. The implicit assumption is that what survives is efficient (and thus, in some sense, desirable). This conception can be clearly seen in Nunes and Valério’s discussion of the different paths to capitalism, which bring them to the conclusion that “capitalism has proven to be the most efficient economic system…” (p. 111). In the case of Godlew-Legidz, this is not even a conclusion, but the very premise of her paper: “the fall of centrally planned economy seems to confirm the thesis formulated by Friedrich von Hayek, that without private ownership and the market, any rational allocation of resources providing for human needs is impossible” (p. 115). Almodovar and Brandão, after a presentation of the thoughts of Smith and Polanyi, conclude that “the recent collapse of the socialist experiment in Eastern European Countries undoubtedly shed new light on Adam Smith’s cautious attitude as regards the designs of well-intended governments […]. In its turn, the growing interventionism experienced by Western economies, after World War Two, undoubtedly shed new light on Karl Polanyi’s views on the prospects of a system of uncontrolled markets” (p. 98).

What I understand is that, in the opinion of Almodovar and Brandão (but I guess also in that of Nunes and Valério, and Godlew-Legidz), history undoubtedly tells us which theory is right and which is wrong, which is a very peculiar conception of the relations between theory and history indeed. The paradoxical implication is that, for almost one century, the theories of

2. Although none of the authors discusses the relation between efficiency and desirability, the attempt to drive normative prescriptions on the ground of efficiency makes sense only if efficiency can be considered desirable in some sense. However, although efficiency is differently defined in different economic approaches, it generally remains compatible with poverty, misery, and hunger for parts of the population. Therefore, in the passage to normative economics, some caution should be needed before presenting efficiency as synonymous of the ‘common good’.
Smith and Hayek were wrong on one half of the globe and right on the other half; now, fortunately for theoretical economists, they are right almost everywhere. On the other hand, in Almodovar's and Brandao's lesson, Polanyi's analysis is not interesting for its historical teachings, but because Western Europe adopted interventionist policies...

Godlew-Legiedz's paper is also a good example of the risks connected with the attempt to drive normative conclusions out of a critical perspective to the history of economic analysis. Her discussion of Hayek's criticism of socialist planning simply reports what the Austrian thinker said, as if the Socialist calculation debate was developed by Hayek alone, and as if his theses had not been (according to some, convincingly) challenged by pro-planning opponents. In this way, she provides a false picture of the state of the debate, as if general conclusions had finally been unanimously accepted. Again, history (mystified history, to be precise) is the proof: according to her "one cannot deny that the institutions of the market economy are connected with democratic institutions and enable the realization of economic values, as well as the moral values of freedom, equality and participation in social life" (p. 115). Perhaps, Godlew-Legiedz does not know that in Latin America or in Asia there are millions of persons ready to deny her categorical truth.

In her presentation of Hayek's theory, the author recognizes that "Hayek's doctrine is not free from contradictions" (p. 119), however, she still accepts his political conclusions. Godlew-Legiedz notices for instance that Hayek's half evolutionism is problematic: on the one hand, it seems that, in Hayek's view, efficiency will necessarily be established in the long run (which is the position implicit in the author's premise that "the fall of centrally planned economy seems to confirm that."") (p. 119). On the other hand, "if Hayek had been an evolutionist in the strict sense, he would not have had to worry about the results of social evolution. His belief in beneficial effects of evolution would have been synonymous with the belief that only beneficial social institutions would appear" (p. 119). However, the author concludes, "Hayek does not leave society with its own logic of evolutionary development. From amongst the transmitted moral tradition he chooses this one, which in his opinion, is the best for the man" (p. 119).

As economists, it is clear that we must consider Hayek's theoretical arguments; what is less clear is why we should also care about his personal moral choices. And, more importantly, why should we approach Hayek's choices as sources of teaching? It is not by simply stating what Hayek said that one can drive normative prescriptions. However this is precisely what the author does when, after having admitted the contradictory content of Hayek's theory, she concludes that "Hayek's general instructions are of crucial importance: [...] liberation of prices and making private enterprise possible is of such benefit that would be hard to overestimate" (p. 120). As I see it, the problem concerning this paper is not much in the contradictions of Hayek's theory, but in those of Godlew-Legiedz's one.

7. Conclusions

To conclude, I think that the contribution of this book to the actual debate rests mainly on the presentation of the ideas of some thinkers of the past: