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Scratch a Would-Be Planner: Robbins, Neoclassical Economics and the End of Socialism

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Abstract

Robbins's central contribution to the debate on market versus plan links with identification of economics as science of how societies handle scarcity, a central contribution of the Essay. This was not a narrow focus on static efficiency; inflation was a key part of Robbins's conception of (mis)handling scarcity. The irony that transition to the market led to movement away from the market in economics is analysed, highlighting the obscured role of macroeconomics, and questioning a new conventional wisdom that Russia should have followed the Chinese path of gradual and Pareto-improving institutional development. A conclusion is that the demise of the Washington Consensus should not lead to a new dogma: the neoclassical paradigm is not being replaced but extended.

Keywords: Transition, Lionel Robbins, socialist calculation debate, Russia, inflation

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Robbins, Neoclassical Economics and the End of Socialism

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Introduction

An exhilarating covey of thunderbolts ... (Robertson, 1935, p.106)

Robbins's characteristically eloquent and powerful contribution to the intellectual battle over market versus plan (1934) executed with a style which, as Dennis Robertson observed (1935, p.104) possesses "the stirring quality of a work of art" permanently established him as a key figure in the great "socialist calculation debate," of the twentieth century. This long discussion directly influenced events in Eastern Europe until it was settled by 1989. Remarkably, Robbins penned pointed paragraphs where Mises and Hayek wrote books, but the "forcible and eloquent … exposition of a case which is so often gravely mishandled by its adherents" (Robertson, 1935, p.106) led Robbins to be assigned a lasting central role. Thus Oskar Lange (1936, p.67) famously made his challenge that "Professor Hayek and Professor Robbins themselves 'solve' at least hundreds of equations daily, for instance, in buying a newspaper or in deciding to take a meal in a restaurant, and presumably they do not use determinants or Jacobians for that purpose." In the eight-volume anthology on this debate assembled by Peter Boettke (2000) Robbins is woven throughout.

Lange was replying to Robbins's (1934, p.151) observation on the computational impossibility of solving millions of equations to emulate a market solution for a planned

economy, given that, importantly, the essence of the economic problem is that it is constantly subject to change. Lange's proposal was then to do what Robbins called "playing, so to speak, as if real competition existed" (1976, p.144). Robbins's response (1937b, p.210) to Lange's supposedly practical solution appears both realistic and decisive, and indicates why the latter's market socialism was pure chimera.

"The managers of the productive units are to sell against each other in the product markets. They are to bid against each other in the markets for factors of production. But it is scarcely to be supposed that they are to be free to change the general use of their capital. As the manager of a communal cotton factory, a government servant may be permitted -- even ordered -- to undersell his competitors in the market for cotton cloth and to overbid them if necessary in the markets for labour and materials. But can we assume that he is free to transform his business altogether, to become a merchant instead of a manufacturer, or a producer of some other commodity? Is he to be free to close down his works in Lancashire and to commence operations in Japan? The thing is not impossible to conceive. But it is really most improbable in practice."

Thus in 1937 Robbins elegantly captured an issue of our own fin-de-siècle and the transition to the market: the importance of the vitality of *de novo* firms as the essential economic engine (e.g. Dabrowski, *et al*, 2001). Robbins thus long preceded Peter Murrell (1990:23) in positing a "Schumpeterian approach" to understanding the problems of socialist economies, that is to indentify their Achilles' heel as lacking the capacity for "the rapid creation of new products…as well as the ability to promote these new products on the world market."

This may seem to contradict the basic (static allocation/general equilibrium) thrust of neoclassical economics, and therefore be in contradiction with the Robbins of the two editions of the *Essay on the Nature and Significance of Economic Science*. That Robbins, in identifying

how societies handle scarcity as crystallising the crux of economics, is sometimes considered to have been “not merely putting his finger on a central feature of the economics that he knew in his own time, but was also significantly shaping the character of microeconomics as it would develop during the remainder of the century.” (Kirzner 2000, p.19). The author of the last encomium himself provided the answer to the apparent contradiction, by defending Robbins against the sustained attack on economics defined as scarcity-conditioned behaviour delivered by James Buchanan (1964) in his presidential address to the Southern Economic Association. “Robbinsian economics”, observed Kirzner, (1965, p.258), “studies the activities of men engaged in solving their economic problems. It is not its task to compute efficient solutions to anybody's allocative problems; its task is to explain the phenomena (including interpersonal exchange processes) which result from the circumstance that men are, in fact, engaged in seeking efficient solutions to their allocative problems.” Buchanan's quarrel, Kirzner observed, ought not to be with Robbins.

Among these phenomena which Robbins repeatedly sought to explain as a priority was high inflation (1937a, 1973): it too arises from the way that a society handles or attempts to deny scarcity. It had a unique role in the death agony of communism.

There is a strong case to be made for a direct connection between Robbins’s own very early concerns, which brought him to economics and his homing in on the central question of scarcity. Robbins’s intense but short-lived attraction to socialism is well-known from his autobiography (1971, p.54-71), where it is related with self-deprecating wit and insight. Robbins found Marxism and communism sectarian and unattractive, but was drawn to the leftist Guild Socialism of G.D,H. Cole (1971, p.57), later a leading Oxford don, rather than the more sedate collectivist ideas that (for example) attracted Friederich Hayek in the same period

following the Great War. Hayek's inaugural address at LSE (1933, p.135) may surprise with its note on the naturalness that "every warm-hearted person, as soon as he becomes conscious of the existing misery, should become a Socialist."

The unsatisfying character of Cole's doctrine of "syndicalism" or workers' control, precisely as it was formulated at that point of Robbins's adherence to Cole, is brilliantly captured by Dennis Robertson (1920, p.537) in an *Economics Journal* review: "Mr. Cole has made a gallant attempt to pitch his tent somewhere between the Trade Union Lodge and Cloud cuckoo-land; but now and again a sand-storm blows it away."

A demonstration of the link posited here between Robbins's socialism and the issue of how society addresses the scarcity of resources is wryly captured by Robbins in his autobiography:

"In all the literature of this sort …I do not recollect any serious discussion of allocation of resources, mobility of productive agents, the role of markets or the accumulation of capital. The fundamental assumption throughout was that the economic problem did not really exist…I began to find this a little unsatisfying. (1971, p.65).

Robbins (1971, p.67) goes on to describes how newly demobbed Lt. Robbins, personal assistant to the head of The Labour Campaign for the Nationalization of the Drink Trade, was drawn to the reading of academic textbooks. Although the texts did not, in fact, supply him with the answers in this regard, he noted that he was struck by the discussion of "economic problems which have to be faced by any society, recognised and discussed in a more or less realistic perspective."

Any thought that stressing this link might be elevating this year and a bit of Robbins's life to an exceptional status may be dispelled if one reads Robbins's knowledgeable and irrepressibly Robbinsian *Economica* (1940) review of the biography of Stalin by French *marxisant* Boris Souvarine, written nearly two decades after his socialist episode. This excellent book, Robbins notes with irony, will have some disadvantages for the English reader, and we can expect he had in mind those like Sidney and Beatrice Webb, Fabian founders of the LSE, and their colleague George Bernard Shaw. For one thing, he observes with that identifiable impish style, there is no mention of how one cannot make an omelette without breaking eggs, no admiration of authoritarian will power. In his review Robbins reveals himself to be completely aware of developments among leftists, and to distinguish nuances amongst them. His capture of the essence of the dictatorship of the Plan must also have arisen from such close observation.

The focus on contrasts in the handling of scarcity turned out to be a powerful subsequent vision, east and west, in understanding the pathologies of what claimed to be a planned economy. This was not because microeconomics, for all its static, timeless and institutionless nature (Lipsey, 2000) is at root an ideology or illusion, but because its basic (testable) propositions, along with modern macroeconomics, were powerfully seen to explain daily phenomena in the unusual economic turbulence and strain engulfing the failing Soviet-type systems from 1986. The particular way in which the Soviet-type economies functioned eventually served to undermine them, and to confirm Robbins's basic point, first expressed in the *Essay*, "Scratch a would-be planner and you will usually find a would-be dictator." A lighter version of this Robbinsian diagnosis is to be found in the *Economist* epitaph for the

USSR: "Thus perished the Soviet Union. It promised the earth. It could not deliver a pair of blue jeans,"

1989 was only a brief moment of victory for Robbins's focus on economics as the way in which systems handle scarcity and for this supporting role in the great debate on socialism. It was not an accidental discovery, as anyone (like Robbins) who had a serious episode as a radical socialist would have had to wrestle with this question.

A major irony of the briefly euphoric end of socialism has been that the pain of the transition *to* the market is strongly argued to have had the impact on economics of having "provided strong empirical support for this shift in focus *from* markets and price theory to contracting and the legal, social and political environment of contracting." (Berglöf and Roland, 2007, p.5). The rest of this article explores this irony and its lessons for economics.

Section II provides a different framing for the lessons from some disappointments of transition, against the recent trend to reduce these erroneously to the sequencing and methods of privatisation. Robbins, we are clear, was more about inflation than questions of ownership, or of pricing at the margin. Section III asks if the rising tide of enthusiasm for the Chinese road away from socialism could have been at all applicable in Central and Eastern Europe and the Former Soviet Union, and concludes that it could not. The people of the region shared Robbins' attitude towards freedom. Section IV does ask what lessons to learn from the "failed brand" of the Washington Consensus, and finds that it was defeated above all because of the way it was applied, with an increasing ideological fervour and rigidity.

I. Hamlet Without the Prince, The Transition Without Macroeconomics

Concluding his influential *Transition and Economics*, Gerard Roland observes with evident satisfaction that "at the Fifth Nobel Symposium in Economics devoted to the economics of transition, out of six sessions, only one was devoted to macroeconomic developments, while there were five sessions on institutions, with three devoted to the organization of government and two to contracts." (Roland, 2000, p.343). Even in that sole session, inflation failed to find any place, nor does it appear in Roland's admirably detailed 22-page index.

Table I is perhaps all that is needed to make clear that this is an odd and very probably symptomatic silence.

Table I: Annual Inflation, per cent, Year on Year

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Russia	..	92.7	1734.73	874.66	307.38	197.43	47.57	14.68	27.66	85.89	18.56	13.82
Poland	585.78	70.3	43	35.3	32.2	27.88	19.9	14.9	11.8	7.3	9.5	6.9

Source: World Economic Outlook (IMF) Database

Peter Murrell, who has emerged as one of the key proponents of institutional economics to study the lessons of the transition, sagely forecast in 1996 that "The victors in the theoretical and policy debate will be those who establish the salient facts through the murk of reform." (1995:167-8). Note that for Murrell, victory would be the recognition of the case for gradualism, with a strong family similarity to the arguments advanced more loudly by Stiglitz.

As a result of the distraction of the very loud debate over the rapid Russian privatisation, another salient fact has recently been shrouded recently in a certain fog: the death agony of most of the communist states was marked by a progressive loss of fiscal and monetary control, which resulted first in repressed high inflation – massive shortages, loss of incentives to produce, lengthening queues – and then finally in open high inflation. (Granville, 1995, Ellman 1992, Rostowski 1998). Murrell (1994) concurs that in the period before the new Russian government took the helm of a state without borders or its own currency, "an economic crisis of vast proportions was setting in. The maldesign of Gorbachev's economic reforms, particularly the lack of attention to macroeconomic balance, had left the economy in a parlous state by the end of the 1980s."

As Table I indicates, in Poland the initial stabilization was successful, if with substantial inflationary inertia. In Russia the stabilisation was initially abandoned. The rapid post-Soviet growth of the money supply and the sizeable fiscal deficits made it bizarre to consider this "shock therapy." (Granville, 1995).

An IMF programme for Russia in April 1995 was precipitated by enterprises and households' increasingly systematic avoidance of the inflation tax, by holding US dollars. As a result, the feed through from money growth to an increase in the price level shrank to about 3 months. (Granville, 1995). Although there were grounds for cautious optimism at that time, the budget deficit from early in 1995 was financed not by central bank credit but by short-term treasury bills ("GKOs"). The floating exchange rate was replaced in July 1995 with a (crawling) peg regime. Seigniorage declined. This stabilisation drive resulted in low average monthly inflation, at least compared to the previous sub-period. (1.85% versus 13.18% per month).

However, less than three years later, and with a worldwide bang, Russia was thrown back into a profound financial crisis.

Why did this happen? Substituting (very short term) bond financing for monetary financing of stubbornly high budget deficits papered over the cracks, but was ultimately doomed. The catalyst was the global financial market shock we call the East Asian crisis. The Russian default and massive devaluation can be seen as a brilliant and tragic confirmation of Sargent and Wallace (1981), who placed primary emphasis on budget stabilisation rather than on money growth per se. They reached the conclusion that permanently higher government deficits must eventually be accommodated by increases in the monetary base. The budget deficit will be inflationary whether financed by the non-banking sector, the central bank or the banking system. Financing the budget deficit through bonds is only an alternative to inflation in the short to medium term, not in the long run.

This narrative is even less factually controversial than the leading stylised fact which presently dominates the discussion, that of the fall in output at the start of the transition, whose magnitude and household welfare effects, it is widely agreed, remain uncertain, but definitely not as high as the raw statistics would have tended to indicate.

The tendency, praised by some, to remove, or diminish macroeconomics in interpreting of post-Soviet transition may likewise be found wanting when it comes to the bounce-back in output and incomes from the recessions triggered by the collapse of central planning. In Poland, the recovery began two years after the start of transition, while in Russia it took eight years – and even longer in other cases like Armenia, which was held back by conflict but since the mid-2000s has enjoyed double-digit growth. The common thread is that recovery follows monetary stabilisation and discipline in the public finances. In Russia's case the turnaround was of course

facilitated by the rebound of world oil prices, but a much more important factor was the economic policy choice not to negate that helping hand by a return to the fiscal profligacy of the 1990s. An OECD study (Ahrend 2004) runs sensitivity analyses which indicate that post-1998 growth rates would have been very similar if oil prices had remained at their average 1990s level.

To be sure, the macroeconomic instability and chaos of the 1990s will have left a deep mark on the body politic and is a critical component in understanding present-day Russia. (See Ferguson and Granville, 2000). As Robbins (1937a:5) emphasised forcefully in the preface he was pleased to write for Bresciani-Turoni's classic study of the German hyperinflation, whose English translation he arranged: "next probably to the Great War itself, it must bear responsibility for many of the political and economic difficulties of our generation….Hitler is the foster child of the inflation." [1]

This essential critical macroeconomic narrative has been crowded out by the skilfully told but arguably very wrong account of the lessons of transition presented most vigorously by Joseph Stiglitz, and then contested by defenders of the Russian privatisation. That Stiglitz completely lacks perspective and understanding of the conditions in Russia is demonstrated by his fundamentally mistaken account of the genesis of the initial high inflation:

"In the enthusiasm to get on with a market economy, most prices were freed overnight in 1992, setting in motion an inflation that wiped out savings, and moved the problem of macrostability to the top of the agenda. Everybody recognized that with hyperinflation (inflation at double-digit rates *per month)* it would be difficult to have a successful transition. Thus the first round of shock therapy – instantaneous price liberalization – necessitated the second round -- bringing inflation down. This entailed tightening monetary policy, raising interest rates." (2002, p.142).

Anyone simply reading the *New York Times* or *Financial Times* in the late eighties could not have avoided becoming acquainted with dramatic tales of escalating shortages, kilometre long queues, introduction of ad hoc rationing schemes, and quite literally empty shelves. Gorbachev understood the situation better than Stiglitz, when he was quoted in *Pravda* (2 December 1990) explaining the worrisome phenomena as related to "the growth of the money supply, which is not linked with a corresponding increase in production." As Ellman (1992) captured it, during the period of Gorbachev's rule the country went from macroeconomic disequilibrium to collapse.

A recent OECD retrospective recorded that "By 1991, the polity was fragmenting and the economy was in free-fall. Real GDP that year dropped by somewhere between 8 and 17 per cent – estimates vary widely, owing to the chaotic economic and political situation of the time." (Ahrend and Tompson, 2005, p.6, citing Granville 1995:37)

The additional important and unfamiliar feature for a market audience is that prices were relatively inflexible, and so the excess demand became hyper-shortage rather than inflation. This hyper-shortage was a caricature of the long-familiar Soviet system, with its pervasive *defitsit* (short supply), economy of favours (Ledeneva, 1998).

It was in these stressed circumstances, in which "fewer than a dozen of the 130 goods considered by the statistical authorities to be basic necessities for everyday life were available through normal retail channels by late 1991" (Ahrend and Tompson , 2005, p.6) that prices were liberalised.

The initial price jump in Russia in January 1992 was much higher than had been forecast by the IMF, and probably reflects both inflationary expectations and the existence of more

liquidity in the system than had been officially acknowledged. It did appear to be the act which drastically reduced the value of peoples' savings, but essentially this had happened under the old system, when they accepted increasingly useless rubles. (Of course it is inevitable that the median saver did not take such a nuanced view, but economists should be able to appreciate it).

The only alternative to liberalisation would have been the continuation of the truly enormous queues of 1991, or of iron rationing and the reaction in black markets. There was no other way to get goods back on the shelves, and, with a certain slowness in comparison to entrepreneurial Poles, for example, this began to happen. Goods which had last been seen 2 or more years ago were back.

The first Russian government of 1992 held the line fiscally, although it was very difficult. They did so in the hope that if they demonstrated their credentials international assistance to their bankrupt new state might be forthcoming. When this did not happen, a critical compromise was made by the reform team, to abandon stabilisation but to remain as ministers and to go for all out and fast privatisation, in the hope of making the reforms irreversible. (Gaidar, 2002).

Leading former Soviet specialist Gur Ofer (2006) recently recalled conversations with Anatoly Chubais, the reformer in charge of privatisation who considered that "premature stabilisation, before enough privatisation had taken place might have opened the door for the return of the old regime. Stabilisation might also slow the privatisation process by making credit to potential buyers more expensive."

This recollection is supported from another angle by the argument of Dabrowski et al, (2001) against the most well-known and rather widely-accepted argument of Stiglitz (1999) that transition failed because privatisation and marketization occurred before the right institutions were in place. They argue that the Russian transition did not fail for the reasons Stiglitz put

forward. Rather the 1992 attempt at disinflation, liberalisation and hardening the budget of the state owned enterprises failed because of opposition in the Supreme Soviet (which had been elected under the old order and Soviet constitution) and insufficient support from President Yeltsin. This led to adopting the "privatisation first" approach, which these reformers had previously opposed.

Dabrowski *et al* thus consider (2001: 318) that "the sequencing error which was made in Russia was not so much, as Stiglitz claims, in placing privatisation before the creation of a legal, competitive and regulatory framework for market processes, but rather the much more important error of placing privatisation before liberalisation ***cum*** hardening of budget constraints and disinflation."

They continue with the persuasive and knowledgeable argument that:

"In an environment of near hyperinflation, massively distorted prices and soft budget constraints, the best designed privatisation scheme, occurring in an environment with the requisite legal structure …could not have succeeded in allocating firms to efficient managers who would have successfully restructured them. On the other hand, as the Slovak and Croat experiences show, given free markets, predictable prices, hard budget constraints, and the basics of commercial law … even outrageous degrees of "crony privatisation" need not lead to the huge disorganisation and social costs experienced in Russia."

As these authors note, and we underscore, making a virtue out of the necessities forced upon the new Russian government is a mistake. We have read Hayek too, the authors assure Stiglitz, and by that they also mean this warning in the *Road to Serfdom:*

"This is perhaps the place to emphasise that, however much one may wish a speedy return to a free economy, this cannot mean the removal at one stroke of most of the wartime

restrictions. Nothing would discredit the system of free enterprise more than the acute, though probably short-lived, dislocation and instability such an attempt would produce.“ (1944, p.209).

No one quoting this powerful concern in the recent context has, however, has produced a reasonable proposal for the distribution of the necessities of life in 1992 Russia, with very different initial conditions from post-war European war economies. (The June 1948 German overnight monetary reform led by Erhard may further call Hayek 1944 fear into doubt). The degree of macroeconomic disequilibrium of post-communist Eastern Europe is, perhaps, beyond the comprehension of the commentators who offer advice that price liberalisation should have been postponed.

But at least these commentators they could be expected to keep in mind the chronology of economic policy in that first decade of Russia’s transition which has been briefly reviewed here. To sum up, after the emergency measures in 1992 to get basic goods back into the shops, disinflation and hard budget constraints were put onto the back burner. Formal employment was maintained, even if non-payment and arrears of wages revealed millions of jobs to have been already lost, which gave some residual access to rudimentary social benefits provided by enterprises. Far from shock therapy, the pain of transition was thus administered gradually – until it finally burst into the open with the crash of 1998 which cut real incomes across the board by one third. The root cause of that crash – even if it was catalysed and intensified by external shocks – was a phoney macrostabilisation based on bond financing of persistent budget deficits. The political reaction to 1998 was a change of government, and it was the incoming team backed by the Communist majority in the legislature which administered for the first time hard budget constraints and disinflation. This much overlooked fact of shock therapy finally being presided over by Yevgeny Primakov and Yury Maslyukov has a revealing explanation. They explicitly

renounced the option of monetary financing on the grounds that the public well understood that inflation was not the answer. The lessons of the high inflation of the early 1990s – especially its highly regressive distributional effects (Granville, Shapiro and Dynnikova, 1996) – had been learned by society as a whole.

"Macro is on the way out. It's all micro now", chortled Economics dissident Arjo Klamer recently, in comments in David Colander's *Making of an Economist, Redux* , 2007, p.230), which surveyed graduate students in the leading US PhD programmes again, with riveting but "small and haphazard" samples of unknown selection bias (Solow in Colander 2007, p.234). Indeed, Solow did observe that:

"What struck me most, and horrified me most, was the widespread feeling among these elite students that the macroeconomics they were taught was the least "relevant", least applicable, least enjoyable part of their curriculum."

As Solow notes, thirty years ago, the opposite would be true. With the return of inflation it is not impossible to think that we may return to the condition described a bit ruefully by David Kreps just a decade before (1997, p.59): "To most people, economics means the (mis)behavior of the macroeconomy, both national and global"

II. Trade off between market and freedom? Conclusions from China

From the time of his memorable barbed footnote "Scratch a would-be planner and. planner and you usually find a would-be dictator, "(1932, p.113; 1935, p.115) Robbins consistently linked his opposition to planning to his clearly stated personal values which gave a high priority to liberty. As he drew his 1947 Marshall lectures in Cambridge to a close (1947:82)

he reminded his more *etatiste* audience of the virtues Keynes had cited for individualism in *The General Theory*, which went far beyond efficiency: “It is also the best safeguard of the variety of life, which emerges precisely from this extended field of personal choice, and the loss of which is the greatest of all the losses of the homogeneous or totalitarian state.”

In those Marshall lectures Robbins’s displays an evident glee in relating his encounter with a “leading collectivist” then occupying a high state position, who is a bit out of touch with developments in the socialist calculation debate. Robbins appreciates exactly how discomfiting the “market socialist” proposals of Abba Lerner will be, and presents a fine example of his special ability to understand the essence of this type of thinking, and why he sees the aspiring dictator lurking behind the yearning planner. Robbins unmasks him as someone who wants to decide for others with a wave of this hand.

Robbins (1976, p.146) was even more emphatic and rather less cheerful, when he proposed of total collectivism that something in the logic of its action which must lead to a much greater curtailment of the liberties of the ordinary citizen. As recent discussion (e.g. Grosjean and Senik, 2007) emphasises, we know of no planned economy in a politically free system, though there are successful market economies without such a system.

It is quite clear that those who took part in the 1989 “Autumn of Nations” in Central and Eastern Europe would not have listened long to someone promising the trade-off of less output fall in exchange for the newly-won taste of freedom. As Witztum (1994) observed, it was less the economic aspects of the system than the political manifestations (so well described by Robbins) which were hated. Witztum’s view remains confirmed for 2006 in the Life in Transition Survey (LiTS) of 29,000 respondents -- in 28 transition countries and Turkey -- carried out by the EBRD

and the World Bank, which indicates that in every country it is inevitably the market which is less popular than democracy. (Grosjean and Senik, 2007).

Following his own injunction to delineate value judgements from positive statements, Robbins added to his observation on the incompatibility of the plan with freedom: "Whether you regard that as a recommendation, whether you welcome the limitations of speculative thought, the regimentation of ignorant opinion by shy-making slogans the cultivation of hero-worshop by ubiquitous giant photographs and a popular shrine is of course a matter of ultimate values," whilst making it clear precisely where his own values lay.

However, as Grosjean and Senik observed, an unintended consequence of China's "spectacular rise" has been a new conventional wisdom that a key sequencing for reforms is to allow political freedom only after economic changes. This part of a possible future "Beijing Consensus" is difficult for those who share Robbins's attitude to the good society and good life.

This new conventional wisdom will quite likely be gaining momentum, as the new Chief Economist of the World Bank, Justin Yifu Lin, has been very clear on his view (2004, p.9): "Although the problems that China faced were similar to those in the EEFSU [Eastern Europe and Former Soviet Union] China adopted an approach very different from that at EEFSU. First, China pursued *perestroika* (economic restructuring) to stimulate the dynamism of the economy but avoid *glasnost* (political openness) to avoid the collapse of the Communist party."

From the start of the East European transition the example of China, which began its reforms with the successful decollectivisation of agriculture from 1978 has beckoned as an example of a superior, smoother and more gradual route to the market. Despite the quite remarkable return to growth of the European accession countries which have successfully joined the EU, and also the often double-digit growth in the countries of the former Soviet Union since

1999, the memory of the shocks of the early 1990s is still vivid in both the populations affected and in the minds of Western economists. The advertisement of a Pareto-improving reform without losers, even if exaggerated to some degree, cannot but appeal. China's rise has certainly represented, as Stanley Fischer remarked, quite probably the single largest increase in human welfare since the invention of fire. (Fischer, 1994, p.131).

In the growing literature on the irresistible exploration of the counterfactual "what if Russia had taken the Chinese road?" We have been able to identify at least 15 major obstacles to any Russian or Soviet adaptation, even by those most admiring of the Chinese reforms. They range from the macroeconomic balance and low debt of China[2] at the start of its reform process, which allowed continued moderate subsidies to the intensely less complex and more decentralised ("M-form", Qian and Xu, 1993) nature of the Chinese planning process, involving about *700* centrally "planned" commodities, rather than the *50,000* of Russia on the eve of perestroika. (Granick, 1990).[3] The most thoughtful of proponents of Chinese lessons for Russia, Peter Murrell (2005) makes it very clear that he only urges adaptation of the *spirit* of the Chinese reforms, which he regards as experimental, bottom-up and trial-and-error, ignoring the key over-arching part of the structure which allows the experiments to be run: "This way of understanding matters contains an implicit riposte to those who make the observation that Chinese-type reform policies were not applicable in the circumstances of Eastern Europe and the former Soviet Union. I regard this observation as wholly uncontroversial."

But it is doubtful even whether the gradual experimental method was applicable in countries where the system had collapsed. For experiment is easier in an environment like China, where people had so much less to lose than in the former Soviet Union and its satellites (if only perceived losses, which have the same political and social impact as real welfare losses). China

had nothing like the rudimentary but universal social safety net provided by the mature Soviet system. The productivity gains from gradually introducing incentives into the overwhelmingly rural economy followed by urbanisation (almost certainly less gradual than the Chinese Party intended or foresaw) amounted to the "low hanging fruit" of development which Soviet-style centrally planned economies had long since plucked – since the initial industrialisation drives of the 1930s, with all their appalling human costs and economic inefficiencies.

Although, as we have explained in the discussion on high inflation, the Chinese fork in the road was no longer open at all to the new Russian government of 1992, the characteristic innovation which has continued to intrigue Roland and his co-thinkers is the "dual-track liberalisation", in which state-owned enterprises are allowed to sell above-plan production on the market, whilst retaining their state orders. This, as may be demonstrated in a variety of plausible models, would have prevented the Eastern European output fall, and allowed "growing out of the plan."

In a tale of two reforms, Wei Li (1999) elaborates on this point, demonstrating that if plan quotas are not strictly enforced then, in the extreme case, it will be no different from a "big-bang" price liberalisation. Li, as does Young (1999) also point to the enhanced possibilities for corruption when planned and market prices diverge, corruption which has been a noted feature of the Chinese reforms. (It should be noted, as Li does, that this corruption is to some extent open, in comparison with the privileges of the old system, which was not seen in the same light). "The Chinese government in the 1980s was able to plug enough loopholes in the dual-track system to make it work." (Li, 1999)

Li's elegant model allows the drawing of a few other important conclusions on barriers to the dual-track in the Eastern European case. Not only was the Chinese economy decentralised,

and thus much less inter-dependent on one planning input, but it was effectively then a closed, self-sufficient economy. No coordination with the equivalent of CMEA trading partners was necessary.

Other characteristic distinctions between the Chinese and the more developed command economy appear to include the fact that the Chinese plan was not the "taut" variety which had supplied what dynamism there had been in the classic Soviet-type system. Chinese enterprises frequently overfulfilled their very simple plans; there was apparently no ratchet mechanism which then punished them for this by an increase the following year. These enterprises also characteristically were not running at a loss at the start of the reforms, so major budget subsidies were not necessary.

Despite all these advantages, the need for intensive monitoring of the type only the Chinese Communist Party could mobilise was brilliantly painted by Alwyn Young in an article which was included in the Nobel Symposium papers (1999, 2007). Young, explaining the razor's edge which this two-track strategy has imposed, describes the "silkworm cocoon war" of 1988, in which Shanghai, right next door to the major silkworm province, Zheijiang, received only 40 tons of their planned allocation of 2000 tons of raw silk. This was no small thing, Young observes. China accounted for 60% of world production of raw silk and 90% of its exports. As early as 1986, Young explains, each harvest season the government bureaucracy "from the provincial level all the way down to village units, and including police and militia forces, was mobilized to ensure that Zheijaing's silk farmers sold silk cocoons locally." Justin Lin has christened China's new strategy as Comparative Advantage Following (CAF) (2004) and indeed labour-rich China can perhaps afford the monitoring costs involved.

Without the authoritarian governance structures in place, it is difficult to see how in (say) Russian conditions it would have been possible to proceed when "incremental reform releases segments of the economy from centralized control, and the freed segments find it profitable to exploit the rent-seeking opportunities implicit in the remaining distortions of the economy." (Young 2007, 2000). It was precisely these possibilities which were exploited during the final years of Soviet rule, and led to the implosion of supplies. Li (2002) describes the rise of corruption in China, one of the causes (along with inflation and a desire for more democracy) which led to the protests crushed in Tiananmen Square in 1989.

China may proceed to widen the sphere of civil liberties and political choice which are summed up as democracy or freedom. We admit of no expertise on this, and do not believe that there is a theoretical or empirical knowledge base for this at present. Whatever the outcome, it seems highly implausible that this could have been accepted in the 1980s by those looking west from Eastern Europe. It is a different question to imagine how history might have been different if "growing out of the plan" had been attempted in the Soviet Union decades earlier. At that point, however, with adequately high growth rates, it is difficult to see why the sheer inefficiency of the system should have led the Communist Party of the Soviet Union in this direction. In 1985 it appears most likely that the authority of the communist parties was too low to be restored

III. What lessons from the demise of the Washington Consensus

How could the transition to the market and prices in the economy lead to a trend "away from markets and prices" in economic analysis? To understand this it is necessary to understand the end of the period of the Washington Consensus, and the new central role argued for institutions.

In his masterly summing up of the retirement of the Washington Consensus as a "damaged brand," Naim (2000, p.88) observes that the surprising popularity of this "wonkish moniker" arose from the "sudden collapse of the Soviet system" and the consequent worldwide disillusion with socialism and central planning. The Consensus filled an ideological vacuum, ideological in the sense of an intellectual labour-saving device in the face of a complex reality. The IMF and World Bank's conditioning of stabilisation arrangements on the adoption of Consensus-compliant policy reforms reinforced its role at that moment. Naim stresses the positive role of the Consensus as well, notably in bringing in to the policy world mainstream economics commonsense that loose monetary and fiscal policy were actually at the root of inflation, which had been denounced as "monetarism."[4]

Naim traces the discovery of institutions in Washington to the January 1994 Zapatista uprising in the poor Mexican state of Chiapas, dispelling much hype about the marvel of that country's reforms. In contrast, in the field of transition and Eastern Europe, the roots of the acceleration in passion for institutional analysis are widely believed to have been given a major stimulus by the transition, as we have noted. (Murrell, 2005; Roland, 2000). However, although the "New Institutional Economics" (NIE) had been gathering increasing professional attention from 1985 (Richter, 2005), assisted by the Nobel Prizes to Coase (1991) and North (1993), both laureates in their acceptance speeches noted that we did not know enough to give recommendations on the transition, though they emphasised the importance of the transition to the market as evidence for the importance of studying institutions. Oliver Williamson, the third of the leaders of the NIE "movement" put it this way: "Broad reach notwithstanding, the NIE is not and does not pretend to be an all-purpose construction, as the reform of economies of Eastern Europe and the former Soviet Union illustrate." (Williamson, 2000).

This refreshing absence of hubris here puts into perspective the excessive claims for pain-free transition by the alchemy of institutions and experiment. Nonetheless, it is to be regretted that Robbins (1932:94) "assumed" (that is abstracted from) both institutions and psychology, and even more that this assumption became implicit rather than explicit at times.

Naim is careful to emphasise that "the discovery of institutions" 2000, p.93) is also subject to the temptation of hubris or fashion hype and over swing which was so important in undermining the Washington Consensus. In an aside about the vitriolic character of the debates Naim (*2000, p.*95) quotes IMF chief economist Michael Mussa's response that those who believe a loose monetary policy would have eased the plight of stricken countries are "smoking something that it is not entirely legal." As it can be seen, we agree, believing the evidence supports the view that in attacking what was perceived as an overly rigid and increasingly doctrinaire set of recipes, it has been entirely possible to slip into a new ideology: the new dogma could turn out to be a rigid insistence on pragmatism.

The actual practice of the Washington Consensus did contribute to its own downfall. In the earliest (inside the Washington Beltway) debates on a "Post-Washington Consensus" an incisive contribution was made by Ravi Kanbur, an academic economist who has also served on the real frontlines of the World Bank, as head of operations for Ghana, and thus had a virtually unique vantage point for observation on what can go wrong in practice. Kanbur (1999) remarked, in a session led by Naim, that this is how the Consensus was carried out in practice: "So the negotiators from Washington always took a more purist stance, a more extreme stance than even their own intellectual framework permitted (they were all surely well schooled in the theory of the second best). 'Give them an inch of nuance, and they'll take a mile of status quo", seemed to be the mindset...'"

There may be important lessons for the translation of sound economics into policy in the history of Robbins's evolution into an economic "statesman," on which Hayek (1994) remarked in fond reminiscence: "I have been spared practical experience with government service. And watching, in the case of a man I so much admired like Lionel Robbins I've no doubt that corrupts the attitude of the economist. He becomes a statesman instead of an economist." The Washington Consensus spirit, perhaps because of the mood of triumphalism of 1989, owed more to Hayek than Robbins.

Although the younger, pre-war Robbins was a passionate proponent of a rather exceptionally rigid orthodoxy, which denied the possibility of intervention in the Great Depression (1934, 1971) both time, his experience in government during the war (1947) and close working contacts with others who had been seen as opponents, certainly mellowed him. Although Robbins attended the founding meeting of the Mont Pelerin Society, his contribution was to write the Statement of Aims. As Aaron Director recalled (Ebenstein, 2003, p.145) of this "nobody else at the meeting …could have reconciled the differences in politics among the participants …as well as Robbins. After we had spent days discussing these issues and tried to draft a statement, Lionel finally took it over and drafted the one we all signed." That was Robbins's last contribution to Mont Pelerin, although his resignation was linked to a painful personal falling out with Hayek (Ebenstein, 2003, p.155, citing Mont Pelerin archives).[5] Indeed, Andrei Shleifer (1998, p.134) criticises Robbins for "not being too opposed to state ownership." When one considers the damage done by an excess of ideology, however, including the damage to important components of neoclassical economics which went into the Washington consensus recipe, one wishes there had been a few more statesmen of Robbins's breed.

Robbins as statesman continued to adhere to his neoclassical economics his antipathy to high inflation (1973), but he did not pose as one uniquely possessed of the sole truth. In attempting to moderate the fashion cycle in development policy, his example may be attractive. Possibly his view of himself (1971) as a synthesizer rather than a genius in economics helped him to strike a balance. Among those who are at the frontiers of economics today, where research in static microanalysis is scarcely needed, there are those who have made real contributions, like Joseph Stiglitz, but who insist that we have had a true paradigm shift in economics (2004, p.27), and that neoclassical economics is therefore dead. There are others, such as the pioneering behavioural economist Matthew Rabin, who are insistent that what they are doing is in large measure "nonradical" but rather see that their contributions will be integrated into the mainstream (2004:69). The leaders of the New Institutional Economics took that approach too, as noted.

It is much to be hoped that the Economics of Transition as a topic will soon be part of the sub-discipline of Economic History, but we accept that the demands of good history for cool and collected objectivity will be difficult whilst those who participated in the intense and world historic debates are still on the scene. This is a pity, as the narratives which are adopted will inevitably inform views on development and on reform policy for a generation. So far the victors in the theoretical and policy debate have tended to be the paradigm-shifters rather than the paradigm-extenders, *pace* Murrell. We have attempted to disperse a little of the murk he observed. We do not find that the economics of institutions would have allowed a change in the often painful tasks facing those who tried to move forward from the economic and social rubble of communism. Of course, much went wrong, and insights from institutions can add to our understanding of the causes. This will not happen if the new creators of a conventional wisdom

yield to the inevitable temptations to the ego which occur when the outsiders replace the insiders. Robbins last critique of socialism in the course of a survey of the history of economic thought, singled out for condemnation (1976, p.146) the “limitation of speculative thought” and the |regimentation of ignorant opinion.” He had in mind a Mao rather than a World Bank conference audience, but his value judgement on this is no less applicable.

IV. Conclusion

Lionel Robbins made a central contribution to the long theoretical debate on market vs plan, both explicitly and by the identification of economics as the science of how societies handle scarcity which is a central contribution of the Essay on the Scope and Nature of Economics. Robbins's approach can and should be distinguished from a narrow focus on static microeconomic efficiency, a trap into which economics has fallen at times. For Robbins the study of inflation was certainly a critical part of how a society handled scarcity (sometimes by denial). This reading of Robbins is applied to the analysis of the irony that the transition to the market and prices in former centralised or "planned" economies has led to advocacy of an opposite transition from the market and prices in economic analysis. However, any account of the transitions, especially the Russian, without an understanding of the exceptional inflationary situation from 1990 will mislead: the widespread focus on the early privatisation has been misplaced. The argument that Russia should have followed the Chinese path of gradual and possibly Pareto-improving dual-track institutional development, falls on a very large number of counts, one of which that it required the retainment of a strong monopoly of authority by the Communist Party. This was almost certainly not realistic, not least of all because, for better or for worse, in Eastern

Europe freedom and pluralism were highly valued as ends, as much as economic growth for East Europeans, as they were for Robbins. We conclude that the new enthusiasm for pragmatism in development policy, epitomised by the demise of the Washington Consensus, must not be allowed to harden into dogma, and that extensions of neoclassical economics are not a replacement paradigm.

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Endnotes:

[1] Ferguson and Granville, "Weimar on the Volga" (2000, p. 1084) concludes with Stefan Zweig's "Nothing ever embittered the German people so much . . .nothing made them so furious with hate and so ripe for Hitler as the inflation", having explored the parallels with contemporary Russia.

[2] Macroeconomic balance allowed the Chinese to consider continuing subsidies for a period enterprises which would not be viable open international trade, a strategy, not an option open in Eastern Europe by 1989. A return to more economic autarky was also not feasible. Throughout this paper we have further abstracted from the additional difficulties facing Russia, which had neither borders nor its own currency at the start of 1992.

[3] Recent work since the Soviet "archival revolution" (Gregory and Harrison, 2005) has demonstrated the view of Ledeneva (2006) that "The Soviet system was not a planned economy.

It was meant to be, but those living within its borders found that they had to counteract its overcentralization and its ideological limitations through intricate schemes of informal exchange, regional and industrial lobbying, and a variety of practices for cheating the system." Harrison and Kim (2006) propose an empirically-grounded alternate model of the Soviet firm under "partial centralization" in which the old stereotype of the enterprise as price-taker is replaced by bargaining.