



# Understanding post-communist transitions: the relevance of Austrian economics

Vlad Tarko<sup>1</sup> 

Published online: 19 May 2019

© Springer Science+Business Media, LLC, part of Springer Nature 2019

## Abstract

The economic literature about the post-communist transition focused primarily on the debate between gradualism and “shock therapy”, and on issues such as prices liberalization, privatization, and macroeconomic stability. Some other factors, emphasized mainly by Austrian economics, were generally given less prominence, although, in retrospect, they were no less important. These include the difficulties of reallocating heterogeneous physical and human capital, the institutions underpinning foreign investment and financial markets, democracy understood as a collective learning process, the importance of civil society, and the threat of populism.

**Keywords** Post-communism · Romania · Socialist calculation debate · Public choice

[I]t is important to remember that when we talk about the reform of a Communist regime we have in mind a revolution. This may be a quiet revolution, a transition. The word *transition* is devoid of the violent implications of the word *revolution*. It is a process of intended, constructive intervention in the constitutional basis of the system. (Kaminski 1992, 332)

## 1 Introduction

How would the post-communist transition in Eastern Europe have looked like if it was engineered by Ludwig von Mises? What would have been Friedrich Hayek’s main

---

✉ Vlad Tarko  
vladtarko@gmail.com

<sup>1</sup> Department of Political Economy and Moral Science, University of Arizona, 1145 E. South Campus Dr., Room 213, Tucson, AZ 85721, USA

concerns? We have some basis for answering such questions. On one hand, Mises gave a set of lectures on development economics in 1959 in Argentina (von Mises 1979). When I first read these lectures, I thought they might as well have been prepared for a visit to Romania in the early 1990s. They were the clearest account I had seen by that time of some of the main transition debates, such as the debate about foreign investment and private property. On the other hand, one of the main recent concerns about the post-communist transition is the rise of right-wing populism in Poland, Hungary, and Romania. Hayek's *Road to Selfdom* (1944) is in many ways a book about the threat of populism in the aftermath of adopting dysfunctional economic policies.

Mises' Argentina lectures cover, chapter by chapter, the fundamental problems of transition: (1) understanding how and why capitalism works, (2) understanding why socialism didn't work, (3) understanding why advanced welfare states require high levels of already accumulated wealth, and, hence, mindlessly copying existing Western policies would likely fail (one needs, instead, to look into the *history* of western countries, rather than just at their present), (4) understanding the dangers and causes of inflation (a major problem in Eastern Europe in the 1990s), (5) understanding the importance of foreign investment as a mechanism for economic convergence, and the necessary institutional underpinnings for this process to occur and bring about development, with a particular focus on the importance of credible private property protections, and (6) the challenge of economic reform when most people don't know economics and have misleading intuitions.

There's little doubt that Austrians like Mises or Hayek would have had serious qualms about the manner in which the post-communist transition was actually managed, although they would have agreed with prices liberalization and privatization. Moreover, the post-communist transition raised a typical Austrian dilemma – how to correct past misallocations of labor and capital. Indeed, post-communist governments scrambled to fix, with a minimum of social unrest, the massive misallocations of capital and labor that had been created during decades of communism. In this regard, their strategy was decidedly non-Austrian. Apart from privatization and prices liberalization, it also involved very high inflation and providing incentives to retire. Additional policies prevented market-driven capital and labor adjustments, such as the overly-cautious attitudes toward foreign investment, zoning laws preventing urbanization, and delayed formation of capital markets.

Consequently, large fractions of the Eastern European populations were left behind during the transition and still cannot enjoy many of the benefits brought by market economies. This economic failure combined with a culture shock following the EU accession. The EU accession allowed numerous people, including many young people, to travel to the West, and bring back a distinctly more liberal way of thinking – more materialistic, more concerned with individual rights, and more cosmopolitan. This has caused a cultural rift within Eastern European societies between pro-European liberals and conservative traditionalists, partly nostalgic for the communist past and partly nostalgic for an imagined deeper past promoted by nationalistic fantasies. Indeed, a striking fact about Eastern Europe is that opinion polls consistently find that about half the population agrees with statements like “life was better under communism” and “communism was a good idea misapplied” (Nicoara and Tarko 2018). This cultural rift also created political and intellectual opportunities, as some of the otherwise well-educated and privileged beneficiaries of the post-communist transition are speculating

the personal gains, in terms of prominence and power, that can be obtained by feeding populist, nationalist and religious fevers. This dynamic is eerily reminiscent of Hayek's account of "how the worst get on top" in *The Road to Serfdom*.

The failure to allow markets to quickly reallocate labor and capital, the push toward early retirement, continuing corruption, and the EU accession cultural shock have all been a fertile ground for the growth of anti-market and anti-European populism, infused with fundamentalist religion and nationalism. This has taken virtually everyone by surprise, although some warnings and insights were available in the Austrian literature from Hayek (1944) all the way to the more recent concerns about the interactions between culture and formal institutions (Boettke 1996; Lavoie and Chamlee-Wright 2001; Boettke et al. 2008; Evans 2008; 2008; 2014; Aligica and Evans 2009; Tarko 2015).

Considering the failure of mainstream economics to predict the collapse of communism and the extent of the failure of socialist planning (Levy and Peart 2011), combined with the better insight provided by contrarian Austrian writers (Lavoie 1985a, 1985b; Steele 1999), one might have expected that economists would have looked primarily to Austrian economics for insight into what went wrong and how to engineer the transition. This did not happen. Mainstream economics did not pause to try out new conceptual tools, and the early post-communist Eastern Europeans do not seem to have been particularly influenced by Austrian economics. This was partly because the Austrian critique sounded so obvious to anyone who had experienced communism that it was hard to believe that it was controversial within the economics profession. To the extent that Austrian economists were listened to, it was with respect to the least original aspects of their advice, namely about the need to abolish price controls and establish market prices. In this regard, they overlapped with Milton Friedman and other pro-market economists as part of the "shock therapy" camp (Yergin and Stanislaw 1998). Other important insights, about the difficulties of reallocating heterogeneous physical and human capital, about the institutions underpinning foreign investment and financial markets, about democracy as a collective learning process, about the importance of civil society, and about the threat of populism, came into view only as the problems materialized.

## 2 The socialist calculation debate

Shortly after the 1917 Russian Revolution, Ludwig von Mises made a dramatic argument: Top-down socialist management of an economy, with the purpose of increasing the efficiency of resource allocation relative to a capitalist market economy, is literally impossible.

Mises' argument is striking in its simplicity (von Mises 1920, 1922; Hayek 1935). In a market economy, profit offers a simple numeric *measure* for the efficiency of a firm – of how much social utility the firm is producing as it transforms valuable resources (which could, in principle, be used in many other ways) into even more valuable products (as judged by those willing to buy them). Profit also offers an *incentive* to act as efficiently as possible and to find new ways of best satisfying consumer demands. Negative profits (losses) reflect the opposite situation, when the firm is taking valuable resources and transforms them into less valuable products. Such losses determine firms

to change their behavior or go bankrupt, hence creating a strong incentive against wasting important resources in various unfortunate directions.

Essential to Mises' argument is the observation that profits measure efficiency *only* when both revenues and costs are determined by market prices, and hence reflect the demand for the products and for the inputs, and, on the supply side, the opportunity costs of diverting the resources from other possible uses. If one nationalizes the means of production, one abolishes the market prices on the inputs side, hence decoupling the costs side of the equation from considerations of supply and demand. As a result, the accounting profits of state-owned enterprises become meaningless as measures of allocative efficiency or as incentives to allocate resources efficiently. In Mises' (1949) telling, there is no mechanism, other than a competitive market, for balancing consumer demands and opportunity costs, i.e. for deciding how to allocate limited resources such that they best satisfy people's preferences, or, to put it differently, for choosing out of the myriad of all technologically possible endeavors that small subset that increases social welfare. Consequently, by abolishing market prices in the means of production, the socialist system creates a form of "planned chaos" (von Mises 1961), in which production and distribution decisions lack any efficiency guideline. We expect such an economy to constantly over-produce various useless products and under-produce some desired (or even essential) products, as the price mechanism for correcting such errors has been abolished.

This argument is challenged in the ensuing "socialist calculation debate". Mises' argument convinces the socialist theorists, including in the Soviet Union, that they cannot abolish money, but it does not convince them that central planning itself is futile. Over the course of this debate Mises and Hayek add three more arguments to the above static efficiency argument.

First, one of the main counter-arguments to Mises holds that central planners can still allocate resources efficiently by trial-and-error (Lange and Taylor 1956; Lange 1994; Stiglitz 1996; Boettke 2018, chap. 5). As a response to this, Mises and Hayek (and later Michal Polanyi) note that, while this might work for already existing *known* production processes, it cannot work for the allocation of research and development (R&D) resources. The entrepreneurial trial-and-error in a market economy involves the simultaneous attempts to develop alternative ideas, within a competitive environment, and with funding obtained in competitive capital markets (Hayek 1945, 1948, 2014, chaps. 4, 12; von Mises 1949; see Boettke 2018, chap. 5 for an overview). By contrast, innovation in a centrally planned system in which the state owns all the means of production involves the need to ask for permission within a political hierarchy for using some of the state-owned resources for developing and implementing one's idea. The problem with this is that, by definition, no one knows in advance which idea is going to be a good one (Polanyi 1951). While capitalism is characterized by "permissionless innovation" (Thierer 2016), innovation under socialism is hampered by the need to convince committees in a hierarchical system, and such committees lack the capacity to identify the most valuable ideas, even if they are perfectly well-meaning. The lack of permissionless innovation under socialism is an unavoidable consequence of the state control over the means of production. A socialist economy will, hence, predictably remain behind a capitalist one in terms of innovation.

Second, Hayek (1945) argues that preferences are not observable, except in the process of actual choices among alternatives (see also Boettke and O'Donnell 2013; Holcombe

2014; Bowles et al. 2017). Hence, one cannot actually find what the economy should produce unless one enables the market process to discover these preferences. Socialist economies were supposed to increase economic efficiency by eliminating some of the “waste” involved in the duplication of efforts between competing firms under capitalism. But by eliminating this duplication, they also eliminate the possibility of revealing preferences. Without the bidding process of a market, one cannot discover how things are valued throughout the entire structure of production (Kirzner 1976, 1985, 1992, 1997, 2017). The market does not just *allocate* existing resources, it is also a *discovery* mechanism. As Buchanan (1982) would put it later,

Individuals do not act so as to maximize utilities described in *independently existing functions*. They confront genuine choices, and the sequence of decisions taken may be conceptualized, *ex post* (after the choices), in terms of “as if” functions that are maximized. But these “as if” functions are, themselves, generated in the choosing process, not separately from such process. If viewed in this perspective, there is no means by which even the most idealized omniscient designer could duplicate the results of voluntary interchange.

Finally, Hayek notes that, if Mises is right about the impossibility of economic calculation in a socialist system, this does not mean that resources are going to be allocated at *random*. They are going to be allocated according to *political goals*. In other words, Mises’ quip about “planned chaos” might actually be too optimistic. This opens the door for the public choice analysis of socialism (Boettke 2001).

In Hayek’s most famous book, *The Road to Serfdom* (1944), he argues that central planning is incompatible with democracy, and, as a result, the political allocation of resources in a centrally planned economy will seldom be primarily concerned with the welfare of the average person. The political goals driving the allocation of resources under socialism will be the political goals of a dictatorial elite (the *nomenklatura*). For example, according to GDP per capita statistics, between 1970 and 1990, East Germany’s economy grew slightly faster than that of West Germany (based on data from Gleditsch 2002). But this, of course, is highly deceptive, as production in East Germany was not aimed to benefit the average citizen, but served the interests of Honecker’s brutal dictatorship. By contrast, in a market economy like West Germany’s, things were being produced only if there was an expectation that someone would want to buy them – and, hence, there was a genuine connection between the measured GDP per capita and the standard of living of an average person.

As later argued by Boettke (1993, 2001, chaps. 4, 8), once we move beyond the hypothetical assumption of rulers’ benevolence and adopt a more realistic perspective on political decision-making, we begin to better understand why all socialist systems turn into de facto rent-seeking societies, in which the central plan is used to restrict access to resources, and create rents and positions of power (see also Levy 1990; Shleifer and Vishny 1992).

The vast system of interlocked monopolies, and the *nomenklatura* system, worked to provide prerequisites to those in positions of power and controlled access to these positions. The Soviet system created a loyal caste of bureaucrats who benefited directly from maintaining the system. The existence of contrived

scarcity rents available to managers and store clerks goes a long way to explaining the persistence of shortages, and the rationale behind many common Soviet practices, such as *blat*. The narrow interests of bureaucrats also explains why they did not pay attention to public interest goals such as economic policies which would increase consumer well-being. ... Bureaucratic competition substituted for economic competition, and resources were allocated according to political rationales rather than economic ones with the corresponding waste that would be expected. (Boettke 1993, 5–6)

For a long time, the rough consensus in the economics profession has been that Mises and Hayek have been mistaken. Lange and Lerner had won the socialist calculation debate. Amazingly, up until the 1980s, Samuelson's influential economics textbook continued to make the absurd claim that the Soviet economy would soon surpass the US economy (Levy and Peart 2011). This was partly due to the aforementioned confusion about how to interpret GDP statistics for non-market economies (see Higgs 1992, 1999 for a good discussion of this type of error).

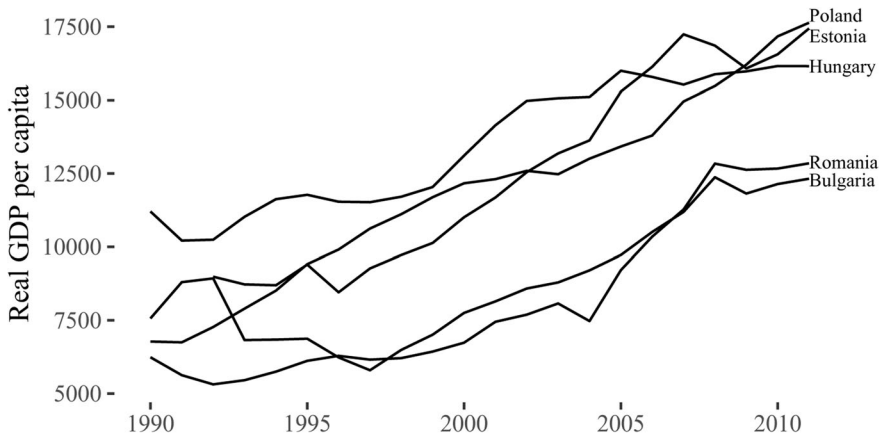
This mainstream consensus changed rather suddenly with the collapse of the socialist regimes, and the subsequent reveal of the sheer extent of the economic disaster (Steele 1999). It quickly became obvious what the GDP data was hiding – the fact that socialist economies were indeed producing many things that had no use, while failing to produce essentials. Apart from some political priorities, such as the military buildup, massive waste and misallocation of resources was the norm, just like Mises and Hayek had predicted (Lavoie 1985a, 1985b; Boettke 1993, 2001). As Boettke (1993, 137) put it, “real existing social, political and economic life under communism was one of perpetual error” as “the economic institutions of communism simply did not provide any signal to economic actors concerning errors of either omission or commission”. Such signals were missing due to the fundamental institutional error at the very core of the socialist system: nationalizing the means of production meant the absence of market prices for guiding decisions about how to allocate available resources.

### 3 The post-communist transition debate

After the fall of communism, the main debate among economists regarding the best way of reforming a formerly communist country and transition to capitalism concerned the opposition between “shock therapy”, i.e. quick and encompassing reforms, and gradualism, i.e. the piecemeal introduction of reforms (Fischer and Gelb 1991; Boettke 1993; Murrell 1995; Shleifer 1997; Aslund 2001; Sachs 2012; Roháč 2013).

At first glance, the shock therapy argument indeed seems to have won the debate, as Eastern European countries that changed quickly, like Poland, Hungary, the Czech Republic and Estonia, outperformed those that didn't, such as Romania, Bulgaria and the Asian formerly Soviet republics (Fig. 1). There are two main caveats to this conclusion, one concerned with the influence of the European Union, and another concerning populism (discussed in the next section).

The main argument in favor of shock therapy was that a successful transition required the displacement of the communist elites and power structures, which could only be done by means of a sudden, sweeping change. Failure to displace the



Source of data: Gleditsch

Fig. 1 Performance of a few selected Eastern European countries

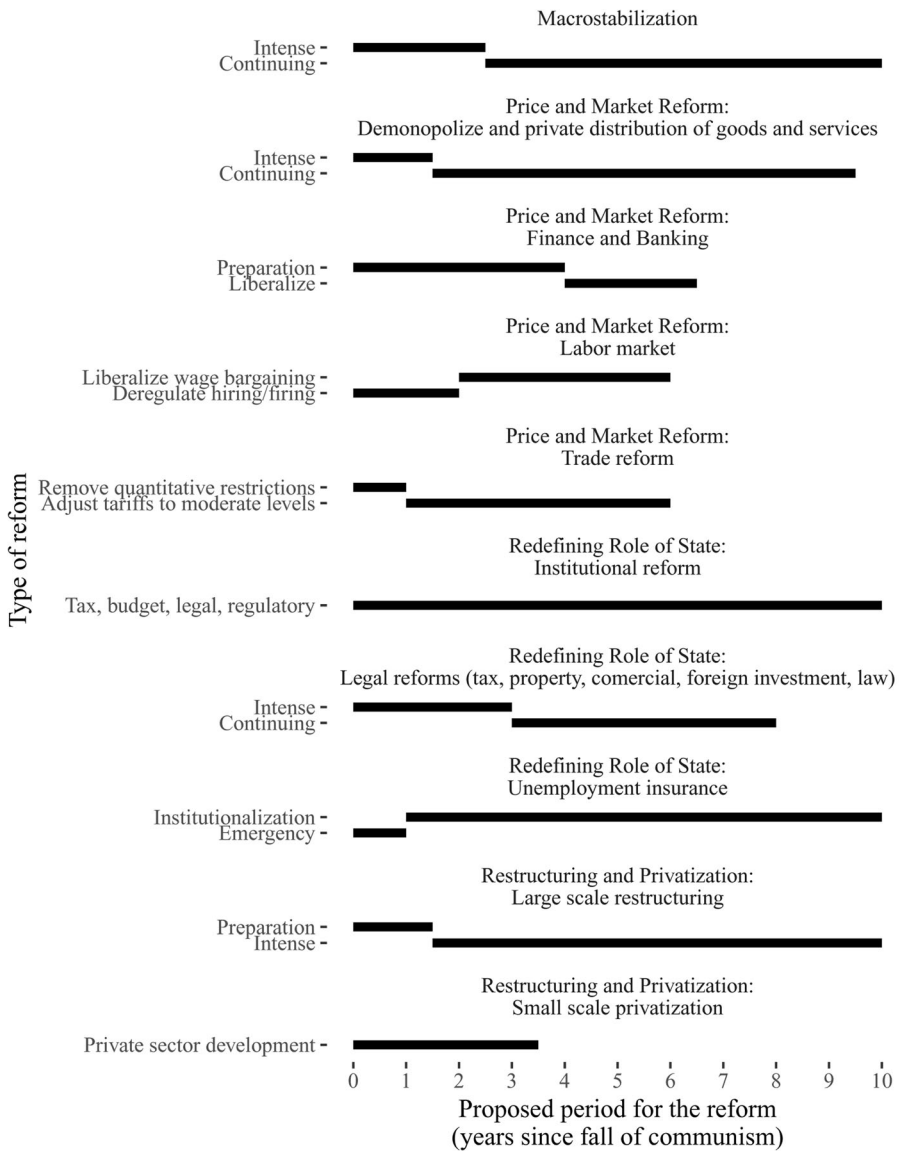
communist elites could doom to failure the entire transition process as the political leaders would not have the incentives to change the institutions. The main argument in favor of gradualism was that the institutional changes required for a successful transition were complex, and the belief that one would know how to perform these changes in a single move was hubris. Even with respect to price liberalization, gradualists argued, one should follow a more controlled step-by-step process. For instance, Fischer and Gelb (1991) proposed the sequence and phasing of reforms illustrated in Fig. 2. Furthermore, shock therapy was dangerous because the unavoidable errors could create widespread popular discontent and opposition to the transition process.

Three aspects of modern Austrian economics have been highly relevant to understanding post-communist transition. First, the emphasis on institutions (e.g. see Boettke 1993) at a time when much of the debate was concerned merely with prices, i.e. whether to suddenly liberalize all prices or to gradually liberalize them in a “controlled” fashion. Second, Austrian business cycle theory (ABC) provides an interesting analogy to the transition situation in Eastern Europe, as the transition involved the need to correct massive misallocations of capital and labor. Third, the emphasis on the interaction between culture and formal institutions, and the importance of civil society, has been grossly neglected, outside the Austrian School and the Bloomington School (Kaminski 1992; Boettke 1996; Boettke and Coyne 2007; Boettke et al. 2008; Boettke and Coyne 2009; Boettke 2009; Leeson and Boettke 2009). Let me briefly consider them before moving on to the issue of populism.

### 3.1 Institutions

Some obvious things are missing from Fig. 2: the role of democracy and civil society, curbing corruption, infrastructure problems, and urbanization. Furthermore, Austrians would have probably objected to the sequencing. If one understands the main problem as one of misallocated capital, one would focus primarily on stopping the problem and on the mechanisms for adjustment, i.e. on privatization and enabling capital markets. By contrast,





Adapted from Fischer and Gelb (1991)

**Fig. 2** Proposed sequencing of reforms. Source: Fischer and Gelb (1991)

Fischer and Gelb (1991) considered these too complicated to be addressed quickly, and neglected to analyze how they interacted with the issue of corruption.

An example from Romania helps illustrate the problem (Telegdy 2002). Technically, the privatization process started early – the first legislative framework was adopted in 1990 and the actual privatizations started in 1992 via the Management Employee Buyouts (MEBO) method, which involved distributing ownership shares to SOEs employees. However, up until 1997 (after a center-right government first won the



elections in 1996), the privatization process was virtually non-existent. State-owned enterprises (SOEs) were divided into two categories. Some were deemed “strategic” and were entirely excluded from privatization (until 1997), while others were deemed commercial and were the object of MEBO privatization. The “strategic” SOEs were supposed to include military production and a few other industries such as energy, but, in practice, numerous other SOEs were included, from construction to tobacco. About half of all capital was locked in these “strategic” SOEs. Ownership of the commercial enterprises was further split into two: 70% of ownership was kept under government control, while 30% was privatized via MEBO. These MEBO shares received by SOEs employees were not real stocks as it was illegal to buy and sell them, and no dividends were paid. Financial intermediation was deliberately preempted and made illegal in order to keep private ownership widely dispersed. This served the purpose of keeping government control over the entire economy, while paying some lip service to “privatization”.

By 1997 a wide-spread enrichment scheme was in place. Small firms, known as “leech firms”, were used as intermediaries to sell inputs to the large SOEs. The leech firms would buy the inputs cheap and sell them at very high prices to the SOEs. The SOEs would buy those inputs from the leech firms rather than directly from the source because they were politically controlled, and conflict of interest laws were non-existent. As such, a person with political connections (or the politicians themselves) could own and operate a leech firm at great profit (at the obvious expense of taxpayers). This entire scheme, which transferred huge riches to private individuals, depended on (a) the non-existence of conflict of interest laws (which the EU pressured Romania to eventually adopt) and (b) the existence of SOEs which could be commanded to buy the inputs from the leech firms, rather than from the cheaper source. The entire scheme was irremediably disrupted in 1996 when a massive privatization program was adopted and implemented. The new private owners of the former SOEs would obviously not continue to buy inputs from the leech firms.

The backlash from the organized interests, including from inside the center-right coalition, was non-negligible and eventually deposed the prime-minister (Victor Ciorbea) after only 2 years. But, by that time, it was already too late as the privatization process was under way. However, many of the people who made their fortunes in the early 1990s with such schemes are still dominating the political landscape in Romania. This highlights the fact that the issue of capital misallocation cannot be disentangled from problems of corruption and political control. The leech firms scheme was indeed misallocating capital, but one cannot understand it outside of the context of entrepreneurship in the political realm. The core of the problem was not economic, and serves to illustrate one of the main arguments in favor of shock therapy.<sup>1</sup>

One can also make a similar argument about financial markets. As discussed by Steele (1999, 108–9, 187–200), Mises considered the existence of capital markets a necessary condition for a well-functioning capitalist system. The reason is that they enable the correction of capital misallocations. This becomes particularly important

<sup>1</sup> The Ciorbea government also adopted a number of other important reforms: complete liberalization of prices and currency exchange rates, the setup of the stock market, and a drastic reduction of welfare payments (this latter measure was soon reversed, as can be seen in Fig. 6). In a sense, Romania also reformed by means of shock therapy, just later.

when large misallocations are present. Hence, a key difference between the Austrian and the mainstream view about how to manage the transition rests on how to correct the capital misallocations. The Austrian view is that one cannot *know* how to correct them, and, hence, one needs to enable institutions such as capital markets that would do the job. By contrast, the mainstream view was to adopt an essentially socialist, central planning method for reforming socialism. As illustrated by the sequence proposed by Fisher and Gelb (Fig. 2), capital markets would follow privatizations, and large-scale privatizations would follow small-scale privatizations. This sequencing strategy essentially fails to comprehend why socialism didn't work in the first place: its knowledge and incentive problems. The Fisher and Gelb strategy only works (a) if the central reformers know how to reallocate the state property, (b) only if they are also benevolent enough to allocate it in the general interest, rather than capture it for themselves, as in the Romanian example given above, and (c) not to use the power of large scale SOEs to undermine small-scale private firms. As noted by Kaminski (1992, 329), once it "becomes evident that major investment decisions, which are the prerogatives of the government, are not economically rational" one is led to the conclusion that "the creation of a capital market as a substitute for direct political interference becomes a public issue".

It is worth noting that, even if one accepts the advantages of shock therapy, the argument against gradualism underestimated to some extent the attraction and influence of the European Union. As such, certain reforms that would not have otherwise happened have been adopted as necessary accession conditions to the EU. Perhaps the most dramatic example of this is Romania changing its constitution in early 2000s such that the judiciary would become politically independent. There is little doubt that, without the EU pressure, Romanian politicians would have been very unlikely to eliminate the right of the Ministry of Justice to fire judges.<sup>2</sup> What makes this a particularly spectacular example is the fact that the social democratic prime minister (Adrian Nastase) who governed over this constitutional change ended up in prison on corruption charges only a few years later. This was only possible because the judges and the prosecutors had become independent. Remarkably, very few expected such radical consequences.

Both supporters of justice reform and the beneficiaries of corruption (like the former prime minister) had deeply underestimated the impact of this particular constitutional change. Supporters of justice reform were deeply skeptical at the time of the impact of a simple rule change, arguing that the reform might even backfire, as it would fix in place a *specific group* of judges who had been previously appointed by corrupt governments. As the argument went, these *specific people* were appointed because, presumably, they were weak on anti-corruption and willing to look the other way, and, furthermore, they were allies of those who appointed them. This argument, focused on people rather than institutional rules, sounded plausible, but it proved mistaken, and unnecessarily pessimistic. I'm bringing up this example because it sheds an important light on how reforms happen. On one hand, changes in rules, rather than of specific people, really matter, and, on the other hand, most people, including those who agree to change the rules, often underestimate how much they matter, and get unnecessarily bogged down in disputes about specific people.

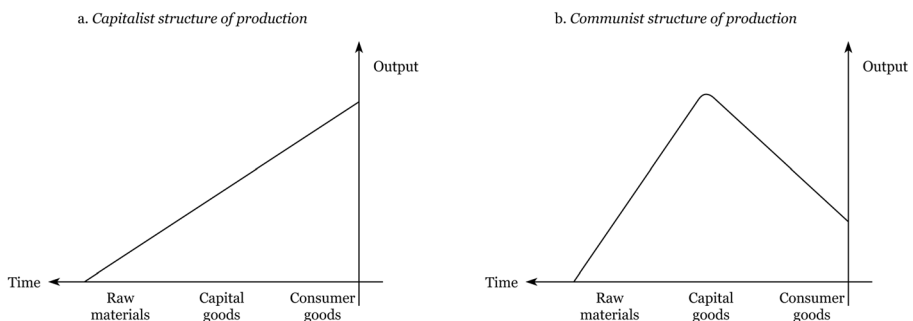
<sup>2</sup> The aforementioned law against conflicts of interest is another example.

### 3.2 Capital and labor reallocation

According to ABC, recessions are situations in which clusters of past misallocations of resources become suddenly known, requiring a (more or less) extensive process of readjustment. A highly contentious debate about the best response to the Great Depression faced Austrians like Hayek against interventionist economists like Keynes, Hayek largely arguing that the past mistakes needed to be cleared up, i.e. the misallocated resources needed to be reallocated *by the market process* to new avenues, while Keynes argued in favor of a strong government response, managing the crisis and providing temporary employment to displaced workers (White 2012). This macroeconomic debate significantly hinges on one's views about the cause of the recession, whether the recession indeed reflects clusters of malinvestment (as argued by Austrians) or whether it just reflects a temporary change in aggregate demand (as argued by Keynesians).

There is an obvious analogy between the classic debate about the response to the Great Depression and the debate about how to manage the post-communist transition. The transition economies faced a situation of obvious capital and labor misallocations. There was no question that the post-1990 crisis in Eastern Europe was not due to a problem of aggregate demand. As noted by Kaminski (1992, 330), “[c]ommunist industrialization has been implemented on a huge scale” leading to a situation in which “[m]ost workers are employed in capital-goods industries” and with “the whole economic system skewed against the interests of consumer-goods industries”. Using the Hayekian structure of production framework, we can illustrate the difference between capitalist and communist economic allocation of capital and labor as in Fig. 3.

The communist regimes, in a quest to urbanize, had created entire industrial towns, often in a highly inefficient manner. For example, at the same time that Margaret Thatcher was closing the coal industry in Britain, Nicolae Ceausescu was expanding coal-mining in Romania, despite Romania only having very poor-quality coal. For 10 years after the fall of communism, Romania has faced occasional flares of massive violence and civil unrest due to several governments having no clue what to do with those mining areas. At the same time that such capital misallocations were created, obvious things were not done, mainly due to political fears. For example, by 1990 a large country like Poland still had virtually no modern roads infrastructure. This has



**Fig. 3** The structure of production in capitalist and communist regimes

only begun to be corrected in recent years due to a massive influx of EU structural funds that the Polish government directed to road construction.<sup>3</sup>

The communist misallocation of capital (Fig. 3) is hard to correct and gets in the way of the typical export-driven development strategy. Such a strategy involves attracting foreign capital, leading to higher productivity and higher wages. The biggest gains are obtained when the goods are produced for export, where they can be sold at the highest prices. By contrast, the formerly communist countries already had capital intensive economies, just that the capital was massively misallocated. This means that, often, a foreign investor would buy, say, an existing plant, simply to dismantle it and sell it for scraps (and firing most of the workers). Based on the structure of production in Fig. 3b, that's actually economically efficient, but it surely did not *feel good* for the former workers of the plant.

Kaminski connects some of his discussion of capital and labor misallocation with the discussion of civil society. As he notes, with the creation of a capital-intensive economy, communists also created the complementary class of high-skilled workers for this industry. This class of workers are inherently opposed to reforms, as

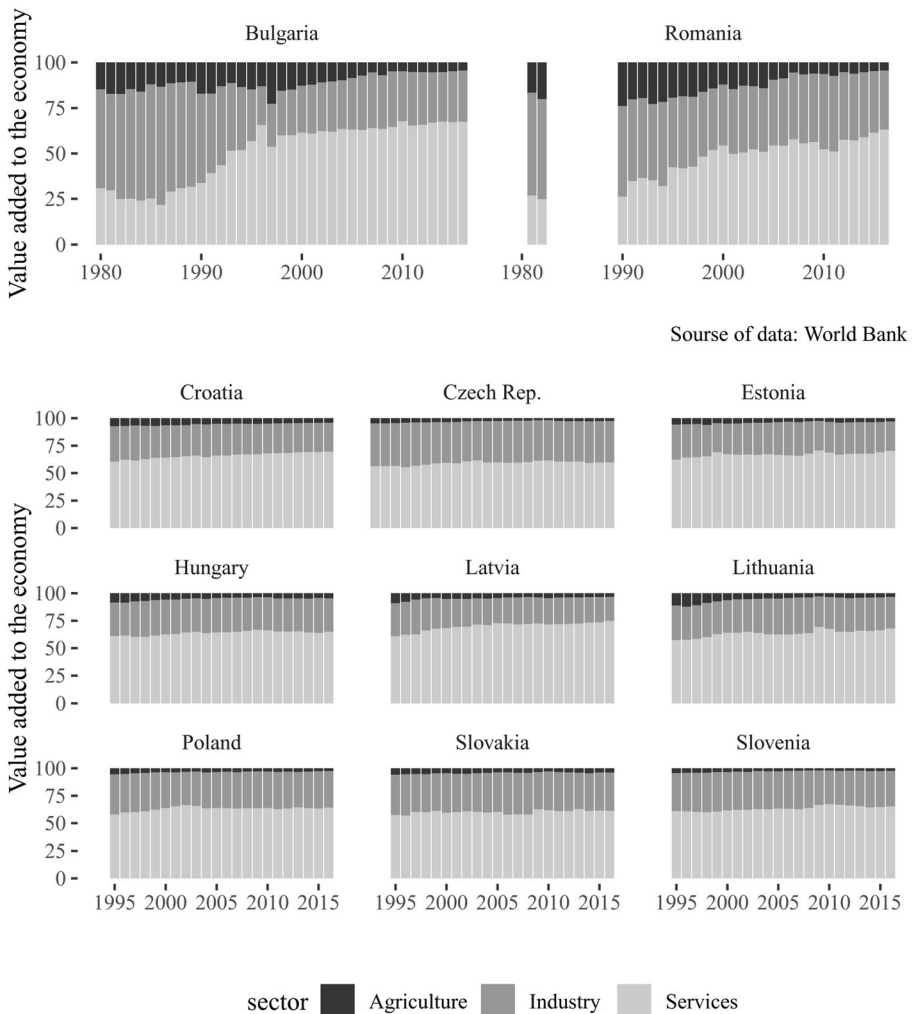
most of the highly qualified and politically active workers are employed by centrally subsidized plants that are unable to compete in the market, wasteful of material and human resources, and technologically out-of-date. Any market reform implies the necessity of closing most of these plants, creating thereby unemployment among the most politically active and best educated workers, concentrated in a few urban centers. No doubt, this is a very risky political decision even for a legitimate government. (Kaminski 1992, 331)

Buying to sell for scraps was the most obvious quick foreign “investor” strategy in the early years of the transition, but governments generally tried to slow down or prevent this process of reallocation, for example including contracts with the buying firms that workers would not be fired, and the plants would not just be scrapped. The example of Bulgaria is the most dramatic, where a massive collapse of the industrial base occurred after 1990 (Fig. 4). In other countries, like Lithuania, Hungary and Romania, the main transition involved switching away from agriculture to services.<sup>4</sup> Foreign direct investment was also relatively scarce until 2005, and it varied a lot from country to country (Fig. 5).

Figures 6 and 7 provide a quick overview at how Eastern European governments dealt with the problem of misallocated labor. Essentially, they had no idea how to retrain and reallocate the labor force and did not entirely trust market forces to be able to pull off such a large-scale reallocation task. As a result, these governments adopted a strategy of inflation plus retirement incentives. As shown in Fig. 6, the percentage of the working population collapsed, as many went into early retirement. This was the result of deliberate policies to encourage such a move. This was coupled with very high inflation (Fig. 7), as governments did not actually have the resources to pay the salaries

<sup>3</sup> Other Eastern European countries were much less efficient at absorbing EU structural funds. Receiving these funds requires securing co-funding from recipient countries, which is far from trivial in a context of corruption and significant public finance constraints.

<sup>4</sup> In most Eastern European countries (with the exception of Bulgaria and Romania) the World Bank data is missing precisely over the most interesting period. After 1995, the role of industry remains remarkably constant (but this may be because the main transition has already occurred).

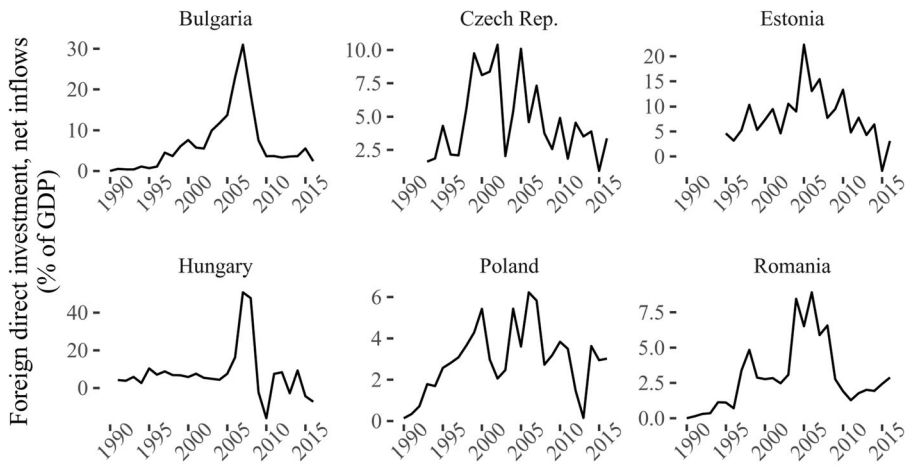


**Fig. 4** The change in the structure of the economy

for their large public sectors or to pay the ever-expanding pensions. Labor force participation in United Kingdom is shown as a comparison in Fig. 6, but one must further bear in mind that these countries have much smaller welfare benefits and, hence, a much smaller welfare-related disincentives to work.<sup>5</sup>

Sometimes, the labor misallocations were so large that the incentives to retire were not enough. In the case of the Romanian mining towns mentioned earlier, a center-right government offered in 1997 a one-time 10x salary pay to anyone who voluntarily

<sup>5</sup> The labor force participation is even lower in countries like France or Germany (below the level of the Czech Republic), due to welfare state policies and labor market regulations.



Source of data: World Bank

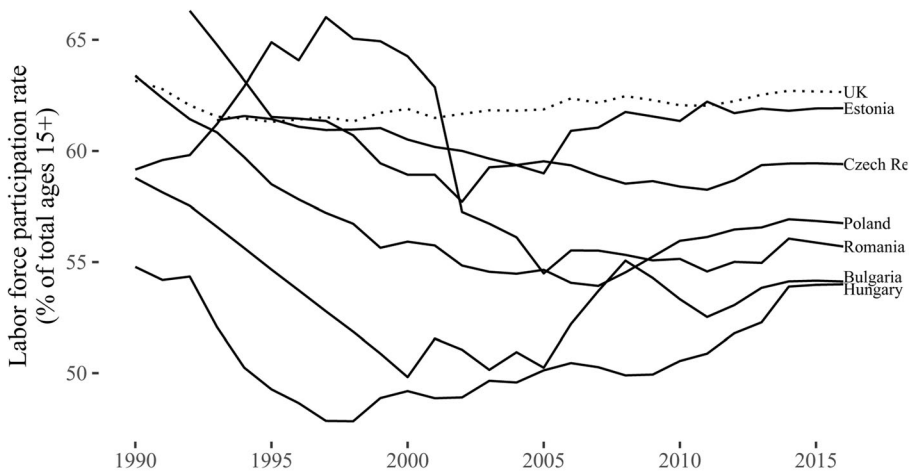
**Fig. 5** Foreign direct investment

resigned, hoping that this inflow of money would also spur development in the region. Large numbers of miners indeed resigned, but no development followed and only 1 year later the miners were marching toward the capital. This brought back dark memories to many. In the early 1990s, the miners were used by the first post-communist government to violently disperse the anti-government demonstrations in Bucharest. But this time, a different government was in power, and they used the military to crush them. Years later the desolate economic conditions in those areas continue, but at least no one seems to have any more taste for violent rebellion.

Finally, one of the largest forms of labor misallocation is concerned with urbanization. Despite efforts to urbanize, communism utterly failed at this task. The countries with largest populations (Poland and Romania) are also the least urbanized (Fig. 8). With the exceptions of Hungary and Bulgaria, urbanization has remained stagnant or even gone in reverse. This is the consequence of not knowing how to reallocate labor, and some of the early declines in urbanization are due to some people moving back to the country side to engage in subsistence agriculture. As seen in Fig. 4, agriculture brings very little value added to the economy, even in countries like Romania and Poland with very large rural populations.<sup>6</sup> This is just another example of labor misallocation – the population trapped in the rural areas could, in principle, be engaged in far more productive activities, but the institutional structure does not allow for the change to occur.

One of the biggest problems in this regard are zoning laws, which artificially delineate rural from urban areas and make it illegal to build in the areas deemed “rural”. This legal straitjacket around cities keeps rents and housing prices high, effectively preventing poorer people from the rural areas to be able to move to the cities. This issue is also connected to corruption, providing another way of making money to those with political connections. The scheme works like this: First, one buys “rural” land cheap, second, via one’s political

<sup>6</sup> I should note that, of course, not everyone in rural areas is engaged in agriculture. In Romania 28.3% of the population works in agriculture and produces 4.2% of GDP. In Poland 11.5% work in agriculture and produce 2.4% of GDP. In Bulgaria 6.8% of the population works in agriculture and produces 4.3% of GDP.



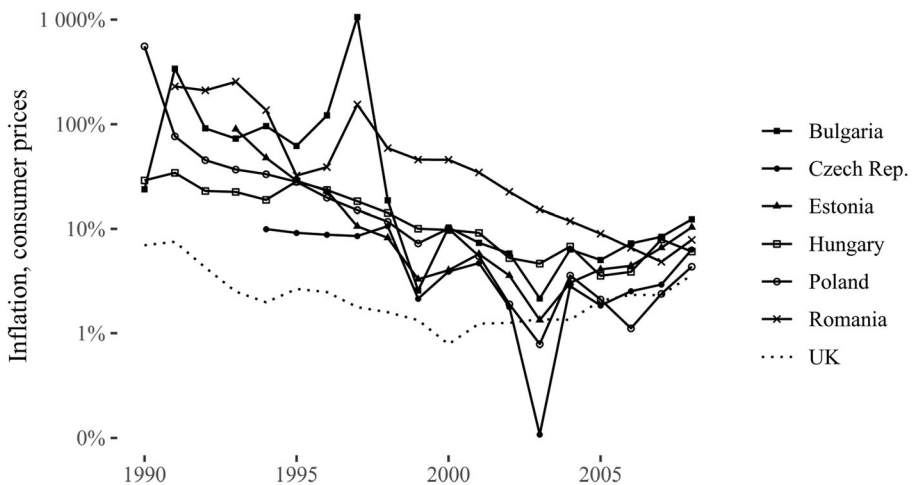
Source of data: International Labour Organization

Fig. 6 Labor force participation rate

connections, one manages to re-assign the land as “urban”, and, third, one sells the land at a much higher price as the demand for urban land where construction is allowed is much higher. This scheme does gradually expand the “urban” areas, but it does so slowly, and increases significantly the cost of building.

### 3.3 The role of civil society

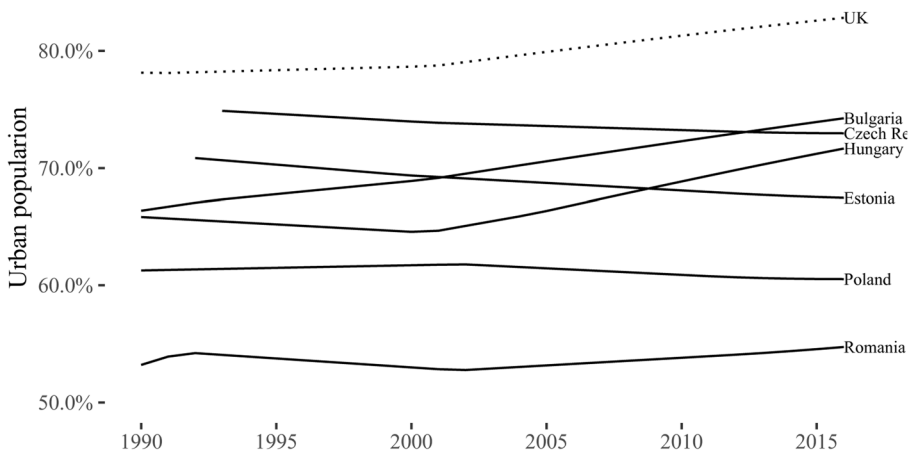
One of the most neglected aspects of the post-communist transition is the civil society. Communism had not just eliminated markets, but it has also destroyed civil society. All



Source of data: World Bank

Fig. 7 Inflation rates





Source of data: World Bank

**Fig. 8** Urban population

important social activities were supposed to happen via political (party) organizations, and were controlled to fulfil political purposes. As such, Tocqueville's "art and science of association" was severely undermined. As noted by Hayek (1944, 136), "the ethics produced by collectivism will be altogether different" and it "will depend partly on the qualities that will lead individuals to success in a collectivist or totalitarian system and partly on the requirements of the totalitarian machinery". After decades of communism people's moral heuristics have indeed been altered. Fixing this issue is far from trivial. As noted by Kaminski (1992, 341), "the social consciousness must recognize that the state cannot solve all problems. People have to acquire self-confidence, learn to trust lateral mechanisms of coordination, and rely on their own initiative and talents instead of relying on the state hierarchy to solve their problems."

This being said, not all Eastern European had the same level of civil society degradation during communism, and this has had a differential impact on the nature of reforms adopted before the fall of communism. Hungary in 1958, Czechoslovakia in 1968, and Poland in the 1980s experienced significant anti-communist revolts. Although these revolts failed (the first two crushed by the Soviet army), they induced a softening of the communist regime. As such, not all Eastern European countries had the same starting point in 1989, which is something that can be at least partially explained by the differences in how their civil society worked during communism.

After 1990, the main civil society organization that grew significantly was the church. We can see this as the most obvious non-state supplier of hierarchy. Rather than discovering "lateral mechanisms of coordination", many have just looked for alternative sources of hierarchy. Unfortunately, Eastern European churches have generally adopted decidedly anti-European and illiberal stances, and are some of the most retrograde forces in society. With the exception of the Catholic Church in countries like Poland, this is partly due to their past collaboration with the communist regimes.<sup>7</sup> The main strategy of

<sup>7</sup> There were important exceptions of course. For instance, the Romanian revolution started with the protest of a Hungarian priest that the communist authorities tried to forcibly move out of a city.

churches during communism was to collaborate with the authorities. After 1990, they moved towards a strategy of collaboration with the main political parties, offering conditional political support during elections in exchange for state subsidies. As such, while nominally “civil society”, they are strongly connected to politics and reliant on state resources. It’s important to note that the importance of churches varies enormously from one Eastern European country to another, as some populations (e.g. in the Czech Republic) are far more secular than others (e.g. in Romania or Poland).

Other civil society organizations continue to be weak, and most NGOs are heavily dependent on state and EU subsidies. Unions are also either weak or controlled by political parties. The most important, and understudied, factor in shaping and empowering civil society has been social media.

One important thing to note is the role of EU subsidies in *distorting* the activities of NGOs. Because of poverty and of a lack of a culture of philanthropy, Eastern European NGOs have massive difficulties in getting funded via purely private donations. Some countries have even attempted to address this issue by legislative means. For example, in Romania, one can redirect 2% of one’s yearly income taxes to any private organization of their choice. Due to this pervasive lack of private donations, the main sources of funding for NGOs are from governments and the EU structural funds.

The main issue with this is that it *inverts* the normal functioning of the civil society. One of the main tasks of the civil society, and of NGOs, is to *discover social-economic problems*, and to *independently assess their causes*. This is even more important than the task of actually solving the problems, as, once they are known, and the causes are understood, the problems can be tackled by a variety of methods, including with government help. However, Eastern European NGOs are forced to primarily follow the directions given by the government or by the EU, as the only way for them to obtain funding is to apply to projects that promise to solve problems identified from the top-down. As such, the EU structural funds can help ameliorate some problems (this is what is seen), while at the same time diverting efforts from other worthy causes, perhaps even more important ones (this is what is not seen). This contributes to the (perhaps legitimate) concern that these NGOs are not truly civil society organizations, and they are almost as removed from some of the real issues as is the EU bureaucracy.

## 4 The threat of populism

The rise of populism and the weakening of democracy in Hungary and Poland leads credence to one of the main gradualist concerns. However, the gradualists still seem to have the specifics wrong. Their main concern was about economics and their expectation was of a quick backlash. Shock therapy would create some winners and losers in the quick aftermath of the reforms, and these economic harms would engender the backlash. By contrast, the populist backlash appears to have occurred after the pains of transition have largely dissipated and does not seem to have a deep economic reason. While Hungary’s economy has somewhat stagnated since 2005, Poland’s didn’t (Fig. 1). In fact, Poland was one of the few countries that still grew during the Great Recession. Furthermore, as noted by Applebaum (2018),

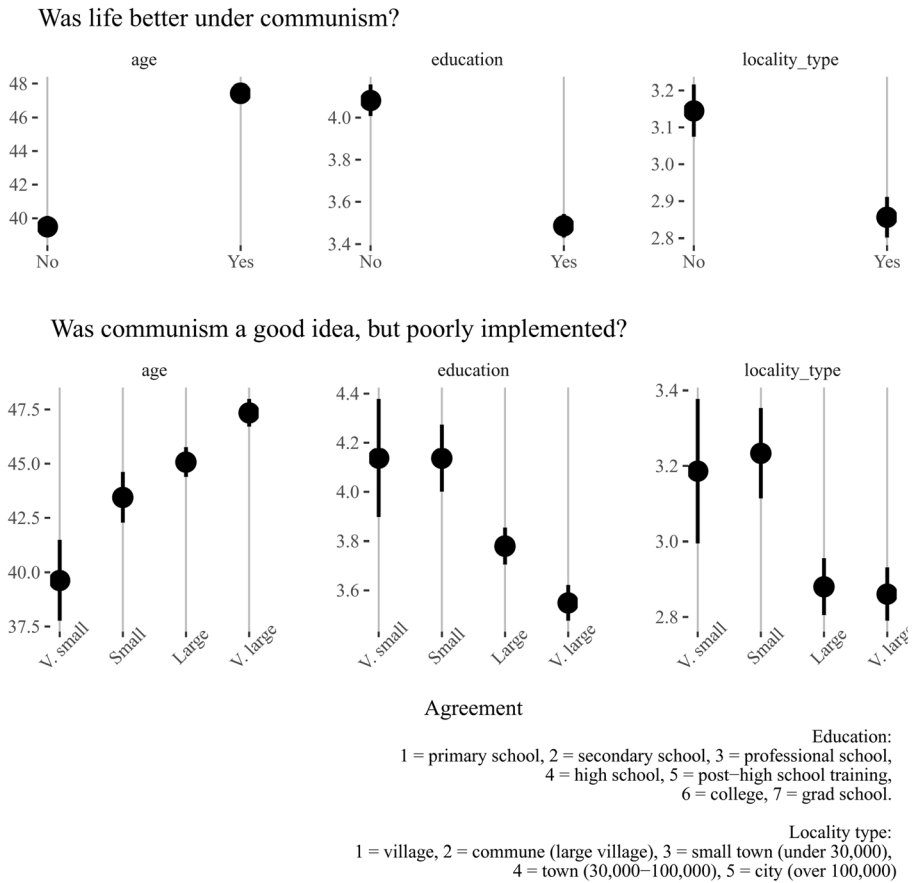
the refugee wave that has hit other European countries has not been felt here [in Poland] at all. There are no migrant camps, and there is no Islamist terrorism, or terrorism of any kind. More important, though the people I am writing about here, the nativist ideologues, are perhaps not all as successful as they would like to be ..., they are not poor and rural, they are not in any sense victims of the political transition, and they are not an impoverished underclass. On the contrary, they are educated, they speak foreign languages, and they travel abroad.

Bryan Caplan's (2003, 2004) "idea trap" model can be used to explain quite a number of unfortunate public opinion dynamics, including the recent rise of populism in United States and Western Europe. The model does not, however, seem to work as an explanation for the rise of populism in Poland. In Caplan's model, a vicious spiral exists between bad ideas and bad growth, while a virtuous spiral exists between good ideas and positive growth. As such, a deep recession is likely to spur the spread of bad economic ideas, which, if implemented, would make matters worse or delay recovery. By contrast, if Poland experienced such a long, sustained period of high growth, it should've seen the spread and consolidation of good economic ideas. While Hungary might fit Caplan's model, due to its stagnation over the past 10 years, Poland doesn't, and, if there's a different mechanism at work in Poland, perhaps this same mechanism actually provides a better explanation for other Eastern European countries as well.

In my view, something valuable still exists in these "backlash" arguments. But, for these arguments to work, we need to *disaggregate* more. Figure 9 shows some of the results of a typical nationally representative poll about attitudes to communism (Nicoara and Tarko 2018). The graphs show the means and standard errors for different categories based on age, education and locality size. Who is nostalgic for communism? Older, less educated people who live in the rural areas. These are indeed the most likely to have been left behind by the transition, partly because they have been the most severely disrupted by the transition (older people) and partly because they have been kept out of the new opportunities by the policies discussed earlier (people in rural areas and small towns). Because of the lack of urbanization and early retirement this group of people is far from small.

As noted by Applebaum, some of the biggest populists are not themselves poor and uneducated. However, this misses the point. Rich and educated people with political ambitions will speculate the opportunity to gain prominence and power by spreading fear among the unprivileged members of society. Furthermore, such populists often honestly buy into nationalism and fundamentalist religion.

In my view, the additional important element contributing to the rise of populism in Eastern Europe, apart from the political block of those left behind by the transition, is the post-EU accession culture shock. This shock has two facets. On one hand, it affects the same group mentioned above, but on a cultural level. The older, less educated and more traditional people are the least likely to go along with the liberal cosmopolitanism irradiated from the European Union. On the other hand, some of the highly educated people are informed enough to realize that they cannot actually compete with the European (and American) cultural products. For example, one gets to notice that a second-rate travelling theatre company from Britain is able to deliver a show that is at least an order of magnitude better than anything an Eastern European theatre can deliver. This is particularly painful to Eastern European intellectuals who tend to be humanistic, rather than analytic or scientific.



Source: CADI/IRES survey, 2010

**Fig. 9** Opinion poll data on attitudes to communism in Romania 2010

Of course, *the vast majority* of highly educated people do not react to Western intellectual and cultural products with envy and resentment, on the contrary. But it is enough for a small number of them to do so, for a vector of populism, nationalism and religious fundamentalism to be born. And, importantly, as mentioned above, a fairly large latent demand for such populism exists.

Hayek had explained this process in the “Why the worst get on top” in *The Road to Serfdom*. As he noted, a major problem is created when consensus is impossible to achieve about some fundamental aspect of society, and people believe that a uniform view *must* be imposed. In the book, he is focused on misguided economic policies which create a need for consensus where, under a market economy, no such need would exist. But his argument about populism holds regardless of the initial cause generating a perception that a uniform view is needed. As he observed,

if we wish to find a high degree of uniformity and similarity of outlook, we have to descend to the regions of lower moral and intellectual standards, where the more primitive and “common” instincts and tastes prevail. This does not mean

that the majority of people have low moral standards; it merely means that the largest group of people whose values are very similar are the people with low standards. It is, as it were, the lowest common denominator which unites the largest number of people. (Hayek 1944, 138)

He further notes that the unscrupulous will try to gain power by engineering such a false consensus by seeking “the support of all the docile and gullible, who have no strong convictions of their own” (p. 138) and, importantly, by seeking an *enemy* as

it is easier for people to agree on a negative program – on the hatred of an enemy, on the envy of those better off – than on a positive task. The contrast between the “we” and the “they”, the common fight against the outside group, seems to be an essential ingredient in any creed which will solidly knit together a group for common action. It is consequently always employed by those who seek, not merely support for a policy, but the unreserved allegiance of huge masses. (Hayek 1944, 139)

This is indeed what we observe in the rise of populism in Eastern Europe. The focus on nationalism and religion, and identifying enemies such as Soros, the EU and gay people, is not accidental. Furthermore, identifying certain signals of community is important such that “only those individuals who work for the same ends can be regarded as members of the community” and “a person is respected only as a member of the group, that is, only if and in far as he works for recognized common ends, and that he derives his whole dignity only from this membership and not merely from being man” (p. 141). This is in contrast to “the concepts of humanity and ... any form of internationalism”. The individuals are asked, not necessarily very politely, to surrender to some form of “collective” purpose.

Hayek notes that such populism ultimately works for the benefit of the leader, and it is a tool for legitimizing the concentration of power. This leads to “the tragic illusion that by depriving private individuals of the power they possess in an individualist system, and by transferring this power to society, they can thereby extinguish power” (p. 144). But, in fact, power is hence concentrated and made unaccountable. This, I think, is what ultimately drives Applebaum’s intellectual populists – it’s the desire so secure greater prominence and power, which they cannot do in a system that remains culturally open.

Last but not least, the particular history of a country may also influence the outcome. For instance, countries like Poland and Hungary have an imperial past, about which everyone learns to be proud of in school. By contrast, countries like Bulgaria, Romania, the Czech Republic or Slovakia have a past of being mostly colonies. As such, the latter find the EU much more historically congenial than the first. It is harder to be anti-European in Romania as the EU is so obviously the best “empire” the country has ever been a part of. By contrast, it is easier to be anti-EU in Hungary or Poland.

## 5 Conclusion

It is always difficult to assess the impact of ideas on policies and institutional changes. This is because such changes often depend on the beliefs of specific people who happen to have the power to enact changes, while the broader climate of opinion only acts as a background

**Table 1** The year of the first translation of some of Hayek's books in Eastern Europe

Book	Translated title	Country	Year
<i>Road to Serfdom</i>	<i>Út a szolgáshoz</i> . Translated by Mezei György Iván. Published by Közgazdasági és Jogi Könyvkiadó, Budapest.	Hungary	1991
<i>Fatal Conceit</i>	<i>Végzetes önhittség</i> . Translated by Pásztor Eszter. Published by Tankönyvkiadó, Budapest.	Hungary	1992
<i>Road to Serfdom</i>	<i>Drumul către servitute</i> . Translated by Eugen B. Marian. Published by Humanitas, Bucharest.	Romania	1994
<i>Market and Freedom</i> (selection of numerous papers)	<i>Piac és szabadság</i> . Translated by Tóth Sándor, Atkári János, Mezei I. György. Published by Közgazdasági és Jogi Könyvkiadó, Budapest.	Hungary	1995
<i>Fatal Conceit</i>	<i>Hukutav Upsakus</i> . Translated by Raivo Rammus. Published by Olion.	Estonia	1996
<i>Road to Serfdom</i>	<i>Droga do Zniewolenia</i> . Translated by Kszysztof Gurba, Lucjan Klyszcz, Jerzy Marganski, and Dobrosław Rodziejewicz. Published by ... Krakow.	Poland	1996
<i>Individualism and Economic Order</i>	<i>Indywidualizm i Porządek Ekonomiczny</i> . Translated by Grzegorz Luczkiewicz. Published by ... Krakow.	Poland	1998
<i>Law, Legislation and Liberty</i> (3 volumes)	<i>Teisė, įstatymų leidyba ir laisvė</i> . Translated by Algirdas Degutis. Published by Eugrimas Publishers, Vilnius.	Lithuania	1997–1999

constraint (perhaps rarely binding in very specific ways). One highly imperfect metric we might use to assess the *access* to some important Austrian ideas is the first year of the translation of *Road to Serfdom* (and of other Austrian books).<sup>8</sup> I have tracked down some of these translations in Table 1.

Based on this list, with the exception of Hungary, we see that even the *Road to Serfdom* was not widely available in Eastern Europe in the early years of the transition. Could it be that, nonetheless, a smaller liberal elite was familiar with the Austrian literature, as they could read English, German and French? The publication in Hungary of the collection *Market and Freedom*, which is not a simple translation of an existing Hayek volume but an editorial endeavor in its own right, shows that, by 1995, there were indeed at least some Hungarian economists who were either deeply familiar with Hayek's entire body of work, such that they were able to create (and translate) an extensive collection of very well-chosen papers, some of them not widely available or widely known, or, at least, they had contacts with Western scholars who had such expertise. Similarly, Antoni Kaminski, who I've cited several times in this paper, has also been part of the Polish government in the early 1990s.<sup>9</sup>

Contrary to this suggestion, we have, on one hand, the actual transition policies, which, as mentioned above, have been quite far from what any Austrian would've recommended, and, on the other hand, the reality of what counted and still counts as "high culture" in Eastern Europe. The main and most influential intellectuals in Eastern Europe are humanistic, and not particularly analytic. Furthermore, before enduring

<sup>8</sup> They are somewhat difficult to track down, as the absence of copyright enforcement in Eastern Europe in the early 1990s means that translations have been done without the permission of the Western publishers. For example, the Liberty Fund otherwise extensive bibliography of Hayek's works does not include any of these translations.

<sup>9</sup> Kaminski's main intellectual connection is with Vincent Ostrom and the Bloomington School, but his book has a very strong Austrian flavor to it.

communism, Eastern Europe had also had an ugly inter-war experiment in fascism. As such, what often counted as “recovering the culture” was rehabilitating past fascist figures and intellectuals, who had been imprisoned by communists or had their works banned or restricted (at least for a while).

The three main points elaborated in section 1, the chronic misallocation of resources, the relative lack of innovation compared to capitalist systems, and the fact that political allocation of resources was done for the purposes of power not general welfare, was so viscerally obvious to anyone in Eastern Europe that it was hard to believe there was an actual debate about it. Paradoxically, the very experience with communism did not make the Austrian literature stand out in a particularly dramatic fashion, but it should have.

## References

- Aligica, P. D., & Evans, A. J. (2009). *Neoliberal Revolution in Eastern Europe*. Cheltenham: Edward Elgar.
- Applebaum, Anne. 2018. “A warning from Europe: The worst is yet to come.” *The Atlantic*, October 2018. <https://www.theatlantic.com/magazine/archive/2018/10/poland-polarization/568324/>. Accessed 8 May 2019
- Aslund, A. (2001). The advantages of radical reform. *Journal of Democracy*, 12(4), 42–48. <https://doi.org/10.1353/jod.2001.0061>
- Boettke, P. J. (1993). *Why Perestroika Failed*. London, New York: Routledge.
- Boettke, Peter J. 1996. “Why culture matters: Economics, politics, and the imprint of history.” In *Calculation and coordination*, 248–65. New York: Routledge, 2001.
- Boettke, P. J. (2001). *Calculation and coordination: Essays on socialism and transitional political economy*. London: Routledge.
- Boettke, Peter J. 2009. “Institutional transition and the problem of credible commitment.” In *Annual Proceedings of the Wealth and Well-Being of Nations*, edited by Emily Chamlee-Wright. Beloit College.
- Boettke, P. J. (2018). *F. a. Hayek: Economics, political economy and social philosophy*. London: Palgrave Macmillan.
- Boettke, P. J., & Coyne, C. J. (2007). The political economy of forgiveness. *Society*, 44(2), 53–59.
- Boettke, P. J., & Coyne, C. J. (2009). An entrepreneurial theory of social and cultural change. In V. P. Díaz (Ed.), *Markets and Civil Society: The European Experience in Comparative Perspective* (pp. 77–103). New York: Berghahn Books.
- Boettke, P. J., & O'Donnell, K. W. (2013). The failed appropriation of F. A. Hayek by formalist economics. *Critical Review*, 25(3–4), 305–341.
- Boettke, P. J., Coyne, C. J., & Leeson, P. T. (2008). Institutional stickiness and the new development economics. *American Journal of Economics and Sociology*, 67(2), 331–358. <https://doi.org/10.1111/j.1536-7150.2008.00573.x/abstract>
- Bowles, S., Kirman, A., & Sethi, R. (2017). Retrospectives: Friedrich Hayek and the market algorithm. *Journal of Economic Perspectives*, 31(3), 215–230.
- Buchanan, James M. 1982. “Order defined in the process of its emergence.” *Literature on Liberty* 5(1): 5–18. <https://www.econlib.org/library/Essays/LtrLibry/bryRF.html>. Accessed 8 May 2019
- Caplan, B. (2003). The idea trap: The political economy of growth divergence. *European Journal of Political Economy*, 19(2), 183–203 [https://doi.org/10.1016/S0176-2680\(03\)00002-8](https://doi.org/10.1016/S0176-2680(03)00002-8)
- Caplan, Bryan. 2004. “The idea trap.” *Econlib's Featured Article*. 2004. <https://www.econlib.org/library/Columns/y2004/Caplanidea.html>. Accessed 8 May 2019
- Evans, A. J. (2008). Constitutional moments in Eastern Europe and subjectivist political economy. *Constitutional Political Economy*, 20(2), 118. <https://doi.org/10.1007/s10602-008-9053-5>
- Evans, A. J. (2014). A Subjectivist's solution to the limits of public choice. *The Review of Austrian Economics*, 27(1), 23–44. <https://doi.org/10.1007/s11138-013-0227-7>
- Fischer, S., & Gelb, A. (1991). The process of socialist economic transformation. *The Journal of Economic Perspectives*, 5(4), 91–105 <https://doi.org/10.1257/jep.5.4.91>
- Gleditsch, K. S. (2002). Expanded trade and GDP data. *Journal of Conflict Resolution*, 46(5), 712–724. <https://doi.org/10.1177/0022002702046005006>



- Hayek, F. A. (Ed.). (1935). *Collectivist economic planning : Critical studies on the possibilities of socialism*. London: Routledge.
- Hayek, F. A. (Ed.). (1944). *The road to serfdom*. Chicago: University Of Chicago Press.
- Hayek, F. A. (Ed.). (1945). The use of knowledge in society. *The American Economic Review*, 35(4), 519–530.
- Hayek, Friedrich A., ed. 1948. *Individualism and economic order*. Chicago: University of Chicago Press.
- Hayek, Friedrich A., ed. 2014. *The Market and Other Orders*. Edited by Bruce Caldwell. Chicago: University Of Chicago Press.
- Higgs, R. (1992). Wartime prosperity? A reassessment of the U.S. economy in the 1940s. *The Journal of Economic History*, 52(1), 41–60. <https://doi.org/10.1017/S0022050700010251>
- Higgs, R. (1999). From central planning to the market: The American transition, 1945–1947. *The Journal of Economic History*, 59(3), 600–623. <https://doi.org/10.1017/S0022050700023500>
- Holcombe, Randall G. 2014. Advanced introduction to the Austrian School of Economics. ]: Edward Elgar Pub.
- Kaminski, A. Z. (1992). *An institutional theory of communist regimes: Design, function, and breakdown*. San Francisco: ICS Press.
- Kirzner, Israel M. 1976. “Equilibrium versus market process.” In *The Foundations of Modern Austrian Economics*. Kansas: Sheed and Ward.
- Kirzner, I. M. (1985). *Discovery and the capitalist process*. Chicago: University of Chicago Press.
- Kirzner, I. M. (1992). *The meaning of the market process*. London: Routledge.
- Kirzner, I. M. (1997). Entrepreneurial discovery and the competitive market process: An Austrian approach. *Journal of Economic Literature*, 35(1), 60–85 <http://www.jstor.org/stable/2729693>
- Kirzner, I. M. (2017). The entrepreneurial market process—An exposition. *Southern Economic Journal*, 83(4), 855–868.
- Lange, O. (1994). In T. Kowalik (Ed.), *Economic theory and market socialism: Selected essays of Oskar Lange*. Aldershot, Hants: Edward Elgar Pub.
- Lange, Oskar, and Fred M. Taylor. 1956. *On the Economic Theory of Socialism*. Edited by Benjamin E. Lippincott. First paperback edition edition. New York: McGraw-Hill Book Company.
- Lavoie, D., & Chamlee-Wright, E. (2001). *Culture and Enterprise: The development, representation and morality of business*. London: Routledge.
- Lavoie, Don. 1985a. *National Economic Planning: What Is Left?* Mercatus center at George Mason University, 2016.
- Lavoie, Don. 1985b. *Rivalry and central planning: The socialist calculation debate reconsidered*. Mercatus Center at George Mason University, 2015.
- Leeson, P. T., & Boettke, P. J. (2009). Two-tiered entrepreneurship and economic development. *International Review of Law and Economics*, 29(3), 252–259. <https://doi.org/10.1016/j.irl.2009.02.005>
- Levy, D. M. (1990). The Bias in centrally planned prices. *Public Choice*, 67(3), 213–226.
- Levy, D. M., & Peart, S. J. (2011). Soviet growth and American textbooks: An endogenous past. *Journal of Economic Behavior & Organization*, 78(1), 110–125.
- Murrell, P. (1995). The transition according to Cambridge, Mass. *Journal of Economic Literature*, 33(1), 164–178.
- Nicoara, Olga, and Vlad Tarko. 2018. “Toward an explanation of communist nostalgia: A happiness study analysis of Romania.” Mimeo.
- Polanyi, M. (1951). *The logic of liberty*. London: Routledge.
- Roháč, D. (2013). What are the lessons from post-communist transitions? *Economic Affairs*, 33(1), 65–77. <https://doi.org/10.1111/ecaf.12006>
- Sachs, Jeffrey. 2012. “What I Did in Russia.” 2012. <http://jeffsachs.org/2012/03/what-i-did-in-russia/>. Accessed 8 May 2019
- Shleifer, A. (1997). Government in transition. *European Economic Review*, Paper and Proceedings of the Eleventh Annual Congress of the European Economic Association, 41(3–5), 385–410. [https://doi.org/10.1016/S0014-2921\(97\)00011-1](https://doi.org/10.1016/S0014-2921(97)00011-1)
- Shleifer, Andrei, and Robert Vishny. 1992. “Pervasive shortages under socialism.” *The Rand Journal of Economics*, 237–246.
- Steele, D. R. (1999). *From Marx to Mises: Post capitalist society and the challenge of economic calculation*. LaSalle: Open Court.
- Stiglitz, Joseph E. 1996. *Whither Socialism?* New edition edition. Cambridge: The MIT Press.
- Tarko, V. (2015). The role of ideas in political economy. *The Review of Austrian Economics*, 28(1), 17–39. <https://doi.org/10.1007/s11138-013-0246-4>
- Telegdy, Á. (2002). *Management-employee buyouts in Romania: Privatization process and ownership outcomes*. Budapest: Central European University.
- Thierier, Adam. 2016. *Permissionless Innovation: The Continuing Case for Comprehensive Technological Freedom*. 2 edition. Arlington: Mercatus Center at George Mason University.

- von Mises, Ludwig. 1920. *Economic Calculation in the Socialist Commonwealth*. Translated by S. Alder. Auburn, Alabama: Ludwig von Mises Institute, 1990.
- Mises, Ludwig von. 1922. *Socialism: An Economic and Sociological Analysis*. Translated by J. Kahane. New Haven: Yale University Press, 1951.
- von Mises, L. (1949). *Human action: A treatise on economics*. New Haven: Yale University Press.
- von Mises, L. (1961). *Planned Chaos*. Irvington: Foundation for Economic Education.
- Mises, Ludwig von. 1979. *Economic Policy: Thoughts for Today and Tomorrow*. Ludwig von Mises institute, 2006.
- White, L. H. (2012). *The clash of economic ideas: The great policy debates and experiments of the last hundred years*. New York: Cambridge University Press.
- Yergin, D., & Stanislaw, J. (1998). *The Commanding Heights: The Battle between government and the marketplace that is remaking the modern world*. New York: Simon & Schuster.

**Publisher's note** Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.