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Rethinking Ourselves: Negotiating Values in the Political Economy of Postcommunism

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Ever since Marx's critique of bourgeois society in the nineteenth century, socialism has existed in an uneasy relationship with liberalism. Marx's work was taken to demonstrate the contradictions inherent in the liberal project, which would prevent liber-

alism from achieving its stated ends. The classical liberalism of the nineteenth century promised that the institutional configuration of the open market economy and limited government could simultaneously achieve individual autonomy, economic prosperity, and peaceful social cooperation. The socialist challenge to this vision of the liberal political and economic order influenced not only the revolutionary movements of the late nineteenth and early twentieth centuries, but also the reformist movements as they developed in the United Kingdom and the United States.

Marxism was the most seductive of the socialist theories precisely because of its comprehensive program. Traditional Marxism offered both a critique based on alienation and a critique based on exploitation. Justice required that capitalist exploitation be combatted. Overcoming alienation required that capitalist social relations be transcended. The truly seductive aspect of traditional Marxism was to suggest that justice could be served only through transcendence. Social reformism would not be able to accomplish the task of leaping from the Kingdom of Necessity to the Kingdom of Freedom; only a comprehensive revolutionary project could deliver the promised better world.

This project of traditional Marxism still demands our intellectual attention, but it is no longer the force it once was. As the Great Depression destroyed the faith of a generation in the workings of the market economy, the collapse of communism in the late 1980s has shaken the faith of a generation in the promise of social betterment through the socialist project of totality. Of course, the death of the communist regimes in Eastern and Central Europe and in the former Soviet Union is subject to multiple interpretations. Some scholars have argued that the lack of open economic and political competition (which characterized the really existing socialism of Soviet-type systems) can be rejected without abandoning either the means (collective ownership) or ends (human dignity and freedom) of the socialist project. Others, such as I, have taken the collapse to suggest that the totalizing project was mistaken in the first place, and that the institutional configuration of collective ownership is unable to provide either the structure of incentives or the flow of information required for advanced industrial production and thus, the material preconditions for human betterment.¹

Nevertheless, triumphantist liberalism must be rejected, just as excuse-ridden socialism should be, if we hope to advance a postcommunist political economy that improves our understanding of the human predicament and increases our chances of improving the human condition. Even if one were intellectually comfortable with the strongest classical liberal argument concerning the failings of socialism (i.e., those associated with Mises and Hayek), the liberal must come to grips with the fact that traditional liberal theory proved vulnerable to the socialist critique, and specifically to Marx's analysis of capitalism. The liberal must examine in a self-critical way why the private-property market economy is judged to be pragmatically troublesome and morally suspect by so many.

1. See, for example, Boettke (1990, 1993) and Anderson and Boettke (1997) for an economic and political history of the rise, practice, and collapse of the Soviet system.

In Theodore Burczak's very provocative paper, "Socialism after Hayek" (1996/97), he suggests that socialist scholars rethink the program so as to meet Hayek's "knowledge problem" critique of central planning head on. Burczak's effort is something that should be welcomed on both sides of the divide. Despite certain fundamental differences, there is much common ground between socialist and liberal political economists, and especially among those who share Burczak's skepticism toward the philosophical project of modernity.² One does not have to accept completely the postmodernist critique to appreciate the argument offered against the scientism of modernity; this is evident, as Burczak (1994) has argued in another context, in the postmodern moment in Hayek's thought. But whereas Burczak writes from a postmodern socialist perspective, and wants to address Hayek's critique and offer a robust theory of social justice, I—writing from a Hayekian liberal perspective—want to address the socialist critique of liberalism and attempt to offer a self-critical theory of the liberal order in the postcommunist situation. Like Burczak, I would argue that the transcendent project of traditional Marxism must be rethought in the wake of the failure of comprehensive central planning. On the other hand, the question that liberals must come to grips with, I contend, is one of offering a viable discussion of justice. Despite Hayek's warning against the concept of social justice, the liberal order must create conditions in which citizens can negotiate the competing values of efficiency, equity, and fair play. Liberalism was soundly defeated by socialist ideas in the late nineteenth and early twentieth centuries because of a moral critique of existing society. The force of that moral critique of capitalism still demands our attention, despite whatever problems we attribute to socialist praxis.

The main problem with classical liberalism emerges from ambiguity with regard to the meaning of justice and the tensions inherent in the liberal order itself on the issue of justice. We are forced to adjudicate among competing values in the body politic at the same time that the standard of adjudication is itself a subject of continuous debate. Hayek, in fact, postulated that a great tension exists between our primitive selves (formed in the small-group settings of our tribal past) and the demands of the "great" or "open" society of modernity (1976, 88–91; 1979, 153–76). Our evolutionary past has conditioned us for one setting while modernity compels us to behave differently if we hope to survive. Our moral intuitions about distributive justice may be at odds with the moral demands of modernity, which requires redefining justice to emphasize fair play as opposed to distributive outcomes. To grapple with these issues, we must avoid the seductiveness of either traditional Marxism or the self-congratulations of triumphalist liberalism and, instead, borrow elements from both in order to offer a political economy of postcommunism that can once again offer

2. The largest patch of common ground shared by Marxists and liberal political economists consists in the importance attributed by both to the institutional context within which economic processes play themselves out. In an earlier draft of this paper I attempted to demonstrate that common ground, but developing that argument successfully required moving too far off the topic at hand. On the varieties of market process theory and the emphasis on institutional context among heterodox schools of thought, however, see Boettke and Prychitko (1998).

individual autonomy, economic prosperity, international peace, and even justice as a viable promise for those who follow its path.³

Efficiency, Equity, and Fair Play

Socialist and liberal political economists can agree on broad principles about the goal of the social system—namely, self-actualization of the individual, generalized prosperity to be shared by all, and improved social relations among peoples. The question remains as to what institutional configuration can best serve these ends. Markets, in a fundamental sense, may be inescapable, but not all markets are equal with regard to the properties we can attribute to them for improving the well-being of citizens. The way markets behave, and thus the characteristics we attribute to them, are a function of the “social capital” within which they are embedded. Social capital is defined here to include all the formal and informal rules that govern human interaction. The main Hayekian point to keep in mind is that the starting point of any analysis of social order must be the context of decisionmaking. Moves to transcend that context and step outside the given social environment misspecify the problem at hand. It is precisely the traditional Marxist project’s apparent need for a contextualizing transcendence that makes it susceptible to the criticisms of constructivist rationalism that Hayek developed in his work. We cannot step—either to the left or to the right—outside of time, so to speak.

Utopia is not an option for imperfect humans. If we hope to improve the lot of individuals, then we must recognize that we are constantly confronted with trade-offs. It is useful to think of these trade-offs in the political economy in terms of efficiency, equity, and fair play, and to recognize that these values often may be in conflict with one another.⁴ We must constantly negotiate the trade-offs among them. We may desire a more equitable distribution of resources, but we must recognize that this entails a change in the rules of the social game. The policy game is never really one that chooses particular distributions of resources; rather, policy is always about rules of the game that engender a pattern of exchange and distribution. Devising schemes for the fair division of existing resources (e.g., letting the first child divide

3. Burczak attempts to construct a vision of postcommunist socialism and in doing so relies on an argument for workers’ self-management. It is the wage-labor contract that is the focus of Burczak’s objection to modern capitalist society and, by proposing a system that overcomes the wage-labor contract, his system can retain the socialist project while avoiding the epistemic difficulties associated with the project of traditional Marxism. I have no problem with self-management *within* the context of the market society as opposed to an alternative economic system. However, I do have reservations about the evolutionary viability of the worker-controlled firm. I certainly would not advocate any legal or political barrier to firms operating in this fashion and may even concede certain economic and normative arguments that could be made concerning this organizational form, yet I wonder why it has not passed a basic survivorship test as an organizational form. Just as I would not advocate any barriers against it, I do not think justice is served by legal or political action that imposes this form of organization.

4. Frank Knight is the liberal thinker most identified with adjudication among these values. In consequence, Richard Boyd describes him as a “reluctant liberal” (1997, xxv).

the piece of cake in two, but allowing the second child to choose) might be interesting intellectual exercises but, within the social system of production, resources cannot be treated as known and given.⁵ Distribution, in other words, cannot be separated from production within a market-driven system. Part of the dynamic and adaptive efficiency of the market society is the constant pressure through distributional rewards exerted on current owners and would-be entrepreneurs to discover better ways to utilize existing resources.

In Israel Kirzner's (1989) work on the ethics of capitalism, the entrepreneurial discovery function is highlighted. It is at this juncture that Kirzner's analysis of the capitalist process differs so radically from the standard neoclassical model and, for that reason, offers a different answer to the Marxist critique on the basis of exploitation. Burczak has taken on a significant intellectual challenge by addressing Hayek and Kirzner that might not be immediately evident to all readers. Hayek's "knowledge" critique—which Burczak accepts—was directed at the transcendent project of Marxism, and Kirzner's entrepreneurial theory of market process raises important questions about both the traditional defense of capitalism grounded in perfect market efficiency and the Marxian theory of exploitation. If Kirzner is correct, then the Marxian theory of justice goes the same way the Marxian theory of transcendence went thanks to Hayek. And then the question, "what is left?" takes on added significance.

In standard theory, the Marxist objection to capitalism on grounds of exploitation is rejected by way of the exhaustion theorem. Under conditions of perfect competition, all factors of production will receive the value of their marginal product. The conditions required for perfect competition are so restrictive that the real world is forever outside that state of affairs, and thus the critic of the capitalist system can dismiss the formal efficiency claims. But Kirzner's analysis does not focus on the state of perfect competition, so surplus does exist at any point in time. As he has emphasized repeatedly in his economic writings, the theory of the entrepreneurial market process is one that views competition as an activity, whereas mainstream models of competitive equilibrium are defined as that state of affairs *after* all competitive activity has ceased. Consider the case of the wage contract. In a price-searcher model, as opposed to the price-taking model, the firm will not agree to pay a worker above their marginal revenue product, and workers will not accept a wage below their next best alternative. Under these conditions, however, the model does not converge to the exhaustion of all surplus. There may be constant pressure to adjust in that direction, but at any point in time the situation is one where some firms will make above-normal profits. There are at all times opportunities for mutual gain that are unexploited. What Kirzner offers is a "finders, keepers" justification for the discovery of pure profit

5. This point has been continually stressed by James Buchanan (1985, 123–85) in his development of constitutional political economy. This is why the considerable intellectual effort (and obvious talent) involved in John Roemer's (1996) analysis of egalitarian analytics is misplaced. Roemer's treatment of these issues is one where equity is judged on outcomes, rather than equity within the process of the social game.

opportunities by entrepreneurs, and he asks the comparative institutional analysis question, “what would be the pattern of exchange and production that would follow if we did not allow entrepreneurs to retain what they find?” Kirzner’s analysis in his work on distributive justice follows a classic line of argument in economics, one that asserts that economists, as economists, cannot answer the question whether profits are deserved. Rather, what economics can provide is an explanation of the consequences for exchange and production of different answers citizens provide to that question. In other words, Kirzner’s analysis informs us about the trade-offs we will have to incur if we choose one path or another. The magnitude of the trade-off will depend on the policy toward profits that is adopted, but he suggests that it definitely will be understated in traditional analysis precisely because the understanding of capitalist processes of exchange and production in traditional theory does not account adequately for the role of the entrepreneur as the prime mover of economic progress. That is, since there is no room for sheer ignorance in the standard model, the role of the entrepreneur in discovering what had hitherto been unrecognized is grossly understated.

The libertarian rights theory of Locke and Nozick that Burczak addresses is, of course, the foundation for many libertarian economists, but it is not the foundation for either Hayek’s or Kirzner’s analysis of the capitalist system. As economists, both Hayek and Kirzner (as Mises before them, and in contrast to Murray Rothbard) are consequentialists. The point is that they are consequentialists in the sense of following a form of *rule utilitarianism* rather than act utilitarianism. Kirzner, for example, attempts to defend a commonsensical ethical norm—finders, keepers—not because of deep moral commitment to the righteousness of the principle, but because of the consequentialist reasoning of the theory of entrepreneurial discovery. Although he does address Nozick’s theory, it is not to examine the logic of that political theory but to assess the economic theory that underlies various moral philosophies and political theories (see Kirzner 1979). Similarly, for Hayek the rule of law is not a sacred principle in and of itself, but rather a historical and consequentialist observation about the impact of a rule of law on the social order. Burczak does raise a good point when he argues that if we follow this consequentialist line consistently enough, then we should be able to construct an index of social betterment. Both Hayek and Kirzner are able, with some degree of success, to skirt the issue by referring us to the *environment* that enables individuals to discover what previously had been unknown rather than judging the costs and benefits of each act.⁶

Hayek’s critique of social justice follows from this argumentative strategy to move the focus of analysis from ideal efficiency in exchange and production to the institu-

6. Hayek takes as his standard of judgment the same standard that Adam Smith postulated: a good society is one that is able to sustain an ever growing population at ever higher standards of living as broadly defined. Some could argue that this was a violation of their subjectivism, and perhaps that is so. Kirzner has argued that the welfare standard in Austrian economics proper is a “coordination” standard where the benchmark question of comparison is whether unexploited opportunities for mutual gain are overlooked by participants. The question about the appropriate welfare standard is still a subject of debate among Austrian economists (see Vaughn 1994).

tional efficiency of the social system of rules. For our purposes, the main issue is that one element of Hayek’s critique recognizes limits on the agreement that is possible in any society. The inability to aggregate preferences into a coherent notion of social justice finds support in the formal proof of Arrow’s impossibility theorem. If, following Hirschman (1970), we postulate that decisionmaking systems are governed by three types of process—exit, voice, and loyalty—we can then see that however important voice is, it has its limits. This raises an important question about Burczak’s model of “socialism after Hayek”—namely, is Burczak stretching the role of voice into realms of activity where it cannot work coherently? Voice cannot substitute for all other devices of social organization. This is true even if we assume away the type of strategic use of voice explored by Timur Kuran (1995) and simply concentrate on issues of limits to the span of control.

Markets may have problems, but so do democratic processes of decisionmaking. Democratic processes may generate outcomes that improve upon the situation, but they also may generate perverse results. The socialist model Burczak postulates would have to answer how, in the absence of the wage-labor contract, individuals will come to learn how to behave in a manner that improves the ability of the organization to coordinate its plans with those of others so that resources are effectively employed and the material preconditions for human dignity are met. In the current model, democratic processes are relied on, but these mechanisms for social control must also be critically examined for how effective democratic voice is in terms of monitoring, directing, and disciplining decisionmaking.⁷ It is important to recognize in this regard that Hayek’s argument about the relative effectiveness of the private-property market economy was not based on any case for perfection, but rather on that economy’s ability to detect its own faults and provide incentives for economic participants to act upon the existence of such errors to attempt to correct the situation. This error-detection and -correction process is actuated through the lure of pure profit which, as Kirzner has emphasized, alerts entrepreneurs to opportunities that hitherto have remained unrecognized.

Given Arrow’s problem, we know that the outcomes of even simple voting processes are extremely sensitive to the setting of the agenda (i.e., the order of voting). It would be useful to see Burczak explore some of the implications for his own workers’ democracy theory of the problems associated with biases within the vote process and the real *power* issues that emerge in that setting. A comparative institutional analysis of both organizational forms—one that (in a Hayekian vein) explores how the alignment of incentives and the flow of information impact upon how actors learn—might raise issues about the robustness of the workers’ system that are not currently being explored (see Prychitko 1996).

7. The mechanisms of exit, voice, and loyalty can be viewed as the metaforces of social cooperation. Whatever mechanism is postulated, however, it is incumbent upon the analyst to critically examine how effective in the context specified the mechanism will be in terms of detecting and correcting the mistakes that inevitably are made by individuals striving to figure out what to do in a complex world where they possess imperfect knowledge.

Of course, we might be willing to trade off some values in order to realize others, but that nevertheless requires that we have a realistic assessment of the problems of each of the systems under consideration. I suggest that once Hayek's perspective is granted the degree of authority that Burczak allows, then the comparative institutional question of how alternative environments impact upon the learning of economic actors becomes the focus of analytical attention. The issues of efficiency, equity, and fair play must be judged in light of questions of learning. If Hayek is taken seriously, then exit, voice, and loyalty must be examined for their *epistemic* properties, and we have serious questions about the ability of voice to succeed in the practical demands of producing agreement beyond certain small-group settings. If exit must play a major role in our social and organizational learning, then the appeal to democratic participation does not complete the task. Democratic participation is just one way, among others, employed to improve the human condition.

Efficiency, equity, and fair play are broad values that political economists can agree should be pursued. But as I pointed out above, these values are often in conflict with one another and thus we have to assess the trade-offs we face among them. Socialist writers, whether of the "thick" or "thin" variety Burczak discusses, appear to value equity above other values. But, that cannot be taken literally; without a sustainable economy the level of equity will be quite limited, and violating notions of fair play in a persistent manner will raise troubling questions about *power* relations in society. If, in pursuing equity, one ends up achieving only equity in poverty and social games that are biased toward favored groups, then the humanitarian aim of improving the welfare of citizens is defeated. Intentions do not equal results in the policy world, and thus we have to engage in an open and critical discussion about the real conflicts of values and trade-offs we must endure in striving to institute a viable political and economic system.

This raises issues about the public sphere and communicative rationality brought to the forefront by Jürgen Habermas, and seemingly influential on Burczak. But liberal political economists, such as James Buchanan and Viktor Vanberg (1989), also recognize the importance of legitimation and dialogue as essential elements in the ongoing process of political participation.⁸ The *political* role of the economist, in a

8. However, whereas Habermas equates the process of agreement with one of "truth judgment," Buchanan and Vanberg insist that politics is about agreement as "compromise." This contrast is important. Following Knight, Buchanan has always emphasized that when politics is treated as "truth judgment" as opposed to "compromise," the inclination is for competing interests to cut off others within the ongoing process of political participation because truth is already at hand. Like Knight, Buchanan insists that it is recognizing our human fallibility, and the imperfections of the world we live in, that forces us to realize that we must adjudicate between competing values and thus weigh the necessary trade-offs we must make. Perfection is something unobtainable in the body politic.

Don Lavoie (1992) also has been influenced by Habermas and endorses the broad values of the democratic process as the major animating force of the postcommunist moment. I agree with him that the values of openness, open-endedness, autonomy, and public transparency are essential components of a vision of the postcommunist political economy. The main question to my mind, however, is how this vision can be instantiated in real-world mechanisms. In other words, I want to explore how the institutionalized practice of democracy squares with the values of democracy. Perhaps democracy in the small (i.e., the practice)

sense, is not to design ideal systems or schemes, but to provide knowledge to citizens so that they can be informed participants in the democratic process of adjudicating competing values.⁹

If socialist writers tend to focus on equity to the exclusion of the other values, some liberals have often appeared to value efficiency above all else. Efficiency here is defined as wealth enhancement. No doubt wealth is important, but so is the idea that generalized prosperity is being achieved. Even in poor countries, some individuals can achieve great relative and, in some cases, absolute levels of wealth. Equity does indeed matter. The claim from Adam Smith to F. A. Hayek has been that the liberal order promised generalized prosperity. In other words, the least advantaged in society would be made better off by the adoption of economic liberalism. This is an empirical claim, and one we can reasonably debate.

A Hayekian liberal theory of political economy biases the adjudication process not toward efficiency but toward “fair play.” The reason is that “fairness” in terms of the rules can postulate an environment in which efficiency and equity do not exist in conflict with one another by focusing on the procedure rather than the outcomes of the economic and political process.

Ironically, in order to ensure that the public sphere is one of free and open discourse, the rules must be such that the autonomy of the individual is respected. This paradoxical situation was pointed out by Hannah Arendt, and recently has been forcefully argued by Ernest Gellner (1994, 30–43, 97–102).¹⁰ Genuine solidarity and citizenship, which animate Burczak’s project, are possible only within a specific institutional structure that provides space for those who wish to reject solidarity and citizenship or to pursue alternative visions of solidarity and citizenship. Exit, in other words, makes voice and loyalty real as opposed to false.

Neither the project of traditional Marxism nor the solidarist project of overcoming the wage-labor contract comes to grips with the full necessity of allowing the “autonomous struggle” of private interests the space to ensure that social intercourse is grounded in (and reinforces) a consensus on how we can live together in peaceful social cooperation. Ironically, by making the private public we ensure that the genu-

may conflict with democracy in the broad (i.e., the values). A self-critical liberal political economy must ask that question, just as I think a self-critical socialist political economy as proposed by Burczak has to ask that question with regard to the practice of the democratic firm negotiating the appropriation of surplus.

9. There is, of course, a *scientific* role of the economist as well, which can be stated as exploring and deriving bold conjectures about how best to understand the social processes of exchange and production, which are subject to refutation by others in terms of the logic of the argument or empirical applicability. The goal of scientific propositions is improved understanding and the way to accomplish that is to account for purpose and meaning. Thus, while I am employing the Popperian language of conjectures and refutations, I am not endorsing the project of falsificationism (even in principle). The language of conjectures and refutations is meant merely as a description of the vibrant conversation we engage in when we do science in an ideal setting.

10. On Arendt, see Hansen’s (1993, 50–128) discussion of the necessity of “space” in order to have a genuine politics, and how the absence of such space generates the false politics witnessed in the modern age.

ine public will be lost and that individuals will retreat into an atomistic private. Does Burczak's proposal of workers' self-managed firms leave enough space for a genuine dialogue to emerge in the public sector, or does the system—by submitting the issue of the appropriation of surplus—demand the encroachment of the public in areas best left to the private and, by so doing, threaten the genuine emergence of the public sphere where the adjudication of values takes place?

Conclusion

Theodore Burczak has started a dialogue that has great potential for improved understanding of how we can best fit our demands for justice with the requirement of material progress. By accepting key aspects of Hayek's argument, Burczak intends to offer a progressive agenda that does not succumb to the difficulties Hayek pointed out that would plague the totalizing project of socialism. On the other hand, by criticizing Hayek's discussion of social justice and suggesting that a dysjuncture exists between Hayek's critique of socialist planning and his critique of social justice, Burczak hopes to provide an alternative solidarist vision: a post-Hayekian vision of socialism.

I find myself in great intellectual sympathy with the effort, though I don't share the vision that Burczak offers. My disagreement with Burczak has little to do with the rejection of workers' self-management on libertarian grounds. I am not at all against experimentation, within the market, of organizational forms. In fact, I believe one of the strong arguments in favor of an increased role of markets in society is that they afford room for experimentation. The key is to create a political and legal environment that does not restrict the form of experimentation.

My concern is that Hayek's (1944, 56–71) argument on the limits of agreement is not addressed in Burczak's model of post-Hayekian socialism. If these issues matter, then the ability to overcome the wage-labor contract may be severely restricted unless we are willing to undertake the nominal pursuit of equity without regard to the effective pursuit of efficiency and fair play. The postcommunist situation is one where the issues of solidarity and citizenship are being redefined and the adjudication among the values of efficiency, equity, and fair play is taking place. What a Hayekian socialist, like Burczak, and a Hayekian liberal, like me, share is a criticism of the totalizing project of modernity, a critique of existing practice in political economy, and a concern with how humanity can fare in the postcommunist world. Despite whatever disagreements we may have, this common ground represents an opportunity for a dialogue between contending perspectives in modern political economy that—if we can agree upon a language—promises to improve both our understanding of the human condition and our chances of improving upon it.

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