THE NEOLIBERAL FALLACY

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Ours is an era of ideology. Several countries, in Eastern Europe and elsewhere, have recently begun the greatest ideologically inspired experiment since Josef Stalin initiated the forced industrialization of the Soviet Union in 1929. Although the prevailing mood echoes Konrad Adenauer’s dictum of “no experiments,” the economic transformations envisaged in these countries ironically mirror the communist project. They implement an intellectual blueprint, a blueprint drawn up within the walls of American academia and shaped by international financial institutions. These transformations are meant to have radical effects, to turn all existing social relations upside down. They offer a panacea, a magic elixir which, once taken, will cure all ills. Replace “nationalization of the means of production” with “private property” and “plan” with “market,” and you can leave the structure of the ideology intact. Perhaps revolutions are shaped by the very systems against which they are directed.

Facing what are often the gravest economic crises in their history, countries all around the globe are told to plunge in and persevere. They are exhorted to plunge into reforms about which only one thing can be known with certainty: they will make most people worse off for some time to come. They are urged to short-circuit the democratic process by
introducing reforms so swiftly that citizens will have no time to mobilize effectively against them. Even after the pains of reform have made themselves felt, politicians are urged to stay the course, which most do. Union leaders speak publicly of their “hope [that] there will be unemployment.” Finance ministers declare that if unemployment fails to rise to 8 or 10 percent, it will be “a sign that the reforms are not working.” Government leaders declare their determination to persist “regardless of all the political pressures upon us.”

Neoliberal ideology, emanating from the United States and various multinational agencies, claims that the choice is obvious: there is only one path to development, and it must be followed. Proponents of this ideology argue as if they had a Last Judgment picture of the world, a general model of economic and political dynamics that allows them to assess the ultimate consequences of all partial steps.

Yet this model is no more than a mixture of evidence, argument from first principles, self-interest, and wishful thinking. Moreover, even though market ideology now seems to have attained uncontested intellectual hegemony, the virtues of markets are being called strongly into question by recent developments in neoclassical economic theory—the very body of thought that heretofore has underpinned the claim that markets are efficient allocators of resources. The observations that a complete set of markets is unfeasible, and that information is inevitably imperfect, invalidate the case for the efficiency of the invisible hand. Moreover, observed patterns of economic growth cannot be explained without a recourse to externalities, thus thwarting any expectation that competitive markets are efficient in dynamic terms.

Confronted with the real world, market ideology fares no better. The thematic statement for this symposium cites as the model to follow “the United States and other key countries in the West [that] have been governed for the past decade by conservative, pro-private enterprise parties.” Yet if a Martian were asked to pick the most efficient and humane economic systems on earth, it would certainly not choose the countries that rely most on markets. The United States is a stagnant economy in which real wages have been constant for more than a decade and the real income of the poorer 40 percent of the population has declined. It is an inhumane society in which 11.5 percent of the population—some 28 million people, including 20 percent of all children—lives in poverty. It is the oldest democracy on earth, but has one of the lowest voter-participation rates in the democratic world, and the highest per capita prison population in the world. Is this the model to follow?

These remarks should not be construed as a defense of traditional patterns of state intervention, whether under capitalism or socialism; as an argument against relying on markets; or as an attack on promarket reforms. They are, rather, intended as parts of a cautionary tale warning
against the dangers of excessive ideological zeal. What I argue below is that we still know little about markets and democracies, and that the little we do know does not support any ideological blueprints.

**Markets and Efficiency**

In the first moments of postcommunist euphoria in Eastern Europe, the model to follow seemed obvious. Yet vague notions about "moving in the direction of 'normal' economies," "embracing the model tested by the historical experience of the developed countries," or "constructing a market economy like in the West" were not, are not, and cannot be sufficient to guide the process of economic transformation. "Normal" economies differ greatly among themselves—in the degree of state intervention; in the way that their firms, industries, and financial institutions are organized; in their collective bargaining systems; and in their system of social welfare provision. Imitating the United States does not point in the same direction as imitating Sweden or Japan. Moreover, it is not at all certain that the alternatives facing Eastern Europe are indeed limited to those already tested elsewhere. For one thing, some kind of a reformed state sector is likely to continue producing most of the national product in these countries within the foreseeable future. In addition, sentiment for some kind of a workers' self-management system remains strong.

In broad outline, the issues are: the role of the state in coordinating resource allocation, the welfare and distributional properties of alternative structures of ownership, and development strategies, if any. The long history of reflection on these problems need not concern us here. Instead, I will focus solely on questions that are of immediate practical significance in the global East and South.

Those who expect the market to coordinate economic activities to produce intertemporally efficient allocations of resources assume the truth of the proposition—known as the first theorem of welfare economics—that competitive markets are sufficient to generate efficiency, at least in the absence of public goods, externalities, or increasing returns. Yet this belief has been undermined by the development of the economics of incomplete markets and imperfect information. As Joseph Stiglitz puts it, "Adam Smith's invisible hand may be more like the Emperor's new clothes: invisible because it is not there."^5

The blueprint of efficient markets was developed gradually by late nineteenth- and early twentieth-century economists like Léon Walras and Vilfredo Pareto before being formalized by Kenneth Arrow and Georges Debreu in 1954. The model is simple: Individuals know that they have needs and endowments, and they freely produce and exchange goods and services. In equilibrium, all individuals' expectations are fulfilled, and all markets clear. Hence the prices at which individuals exchange reflect
their preferences and the relative scarcities of various goods and services; these prices inform individuals about all the opportunities they forsake. As a result, resources are allocated in such a way that all gains from trade are exhausted; no one can be better off without someone else being worse off; and the resulting distribution of welfare would not be altered under a unanimity rule. These are three equivalent definitions of collective rationality (also known as Pareto optimality).

The case for markets as efficient resource allocators hinges on the assumption that markets are “complete,” or in other words, that there is a “market” for every contingent state of nature. But as Kenneth Arrow himself showed in 1964, this assumption is unwarranted: some futures markets, particularly risk markets, are inevitably missing. With some markets absent, prices no longer summarize all the opportunity costs, which implies that not all economic agents are operating with the same information. Labor markets, capital markets, and goods markets do not clear, and the resulting allocation will have room for improvement. Moreover, as Greenwald and Stiglitz have shown, if any markets are missing, then even the allocation of those resources for which markets do exist will not be efficient.

To examine the effect of market-oriented reforms on growth, we need to distinguish three questions: 1) Why do stabilization and liberalization (of foreign trade and domestic competition) induce recessions? 2) Why do some stabilization programs undermine future growth? 3) Are stability and competition sufficient for a resumption of growth?

Stabilization programs tend to induce recessions, even when they are not accompanied by liberalization. There are at least two reasons for this: stabilization is usually achieved by reducing demand; and successful stabilization makes interest rates soar. Moreover, the reduction or elimination of subsidies to industries, price supports, and import tariffs, along with domestic antimonopoly measures, all tend to depress rates of return on investment and boost unemployment.

While high interest rates may be transitory, their effects linger after the initial period of stabilization is over. As Stanley Fischer has pointed out:

Investment will not resume until real interest rates reach a reasonable level, and prolonged periods of high real interest rates create financial crises and bankruptcies even for firms that would be viable at reasonable levels of interest rate.

The second reason why stabilization programs often undermine the prospects for future growth has been highlighted by Vito Tanzi, who observed that spending cuts made under the pressure of fiscal crises tend not to discriminate between government consumption and public investment. After examining several instances in which stabilization policies undermined the capacity for growth, Tanzi concluded:
In all these examples, the supply has been reduced, thus creating imbalances that, in time, have manifested themselves as excessive demand. In these cases, demand-management policies alone would have reduced the symptoms of these imbalances but would not have eliminated the causes. Thus, stabilization programs might succeed stabilization programs without bringing about a durable adjustment.\(^\text{11}\)

Indeed, investment projects are often politically easier to cut than government services or public employment. Both public investments in infrastructure and measures to induce private investment are reduced, thus diminishing future supply.

Finally, even if they are successful in their own terms, market-oriented reforms are not likely to generate conditions conducive to growth. Neoclassical economic theory had little to say about growth. Its preoccupations were mainly static, and anyone who has read Schumpeter knows that static efficiency is a poor criterion of welfare. Dynamic economies are not efficient in the static sense: they use a number of techniques, with different cost-benefit ratios. In turn, the question of whether a competitive market generates dynamic efficiency is highly complex. The theory that did emerge from neoclassical economics, the Solow-Swan model of exogenous growth, argued that competitive equilibrium is efficient but also that it leads to stagnation of income in the absence of exogenous population growth and exogenous technical change. This theory predicted that the levels of economic development should converge among all countries, and they do not.\(^\text{12}\) Recent models do provide an endogenous explanation of economic growth, but in these theories the competitive equilibrium is no longer efficient.\(^\text{13}\) The "engine of growth" is a set of externalities in education, skills, technology, and so on. Competitive markets, in which firms do not capture full return to their endowments, tend to undersupply the factors that generate such externalities.

**The State and Economic Growth**

Hence the present state of economic theory does not support the conclusion that competitive markets are sufficient either to allocate resources efficiently or to generate growth. Whether one takes the theory of incomplete markets, with their informational asymmetries; or the theory of endogenous growth, with constant returns to a single factor and externalities; or the theory of non-Walrasian trade, one will discover neoclassical arguments which suggest that some state intervention is necessary for growth. The notion that the market by itself can efficiently allocate scarce resources is purely hortatory.\(^\text{14}\)

The central lesson of the endogenous-growth theories is the importance of education, whether measured by school-enrollment rates or by indices such as literacy. Primary education for women has
particularly high returns in terms of per capita growth. And while no similar statistical studies seem to be available with regard to health expenditures, the World Bank’s 1991 World Development Report cites impressive evidence on the productivity-boosting effects of health programs, as well as the strong statistical correlation between more equal distributions of income and faster growth.

The effect of public investment on growth is a topic too controversial to be dealt with in a summary fashion, yet recent research summarized by Gene Grossman shows that governments should engage in infrastructural investments not supplied efficiently by private agents, and should pursue measures that increase the rate of return to private projects. This role includes a selective industrial policy that would comprise preferential credit rates for high-technology industries (in which the market rate of return is much lower than the social rate); for projects that suffer from high costs of entry, substantial economies of scale, or steep learning curves; and for projects that have potential spillovers across firms due to externalities and asymmetries of information between buyers and producers. Other recent findings by economists such as Robert Barro and Ronald Findlay reinforce the idea that some intermediate level of public investment and employment—far below 100 percent but also far above zero—is optimal for economic growth.

These findings concerning the role of the state in promoting and sustaining development raise the fundamental institutional question of how to organize state institutions so that they intervene only when appropriate. Neoliberal economists such as Robert Tollison and George Stigler remind us that the state’s ability to engage in productive activities or differentially favor private projects can easily give rise to rent seeking. But while the question of the socially optimal institutional rules and structures remains open, it would be a mistake to answer that the state should be prevented from any discretionary intervention, limiting its role to promoting the “freedom of individual enterprise.” Problems of institutional design cannot be solved by pretending that the state can somehow be walled off from the economy, but must be confronted as such.

Nor can institutional questions be limited to the role of “the state.” Any capitalist economy, in which markets are inevitably incomplete and particular economic agents have access to different information, includes several different types of principals and agents: managers and employees, owners and managers, creditors and entrepreneurs, citizens and politicians. The performance of particular firms—and ultimately of the whole economy—depends on the design of institutions that regulate these relations. What matters is whether the employees have incentives and can be monitored to maximize effort; whether managers have incentives and can be monitored to maximize profits; and whether the state has incentives and can be monitored to resist pressure from weak firms or
special interests. To speak of "the market" as the object of "state intervention" obscures the real issues: the problem we face is not a simple matter of "the market" versus "the state," but of specific institutional mechanisms that can provide particular economic agents, including the state, with incentives and information that will lead them to behave in a collectively rational manner.\textsuperscript{18}

The practical consequences of ignoring such issues are best illustrated by the vagaries of privatization in Eastern Europe. Former Polish finance minister Leszek Balcerowicz has defended privatization as follows:

A market economy based on a broad participation of different forms of private ownership permits the achievement of the highest degree of effectiveness—among all economic systems known in practice—in using the material and spiritual resources of a society. As a result, it generates the quickest improvement in the living standard of citizens. This is so because economizing costs, good organization of work, high quality of production, the effective search for new markets, and technical progress and development are in the interest of the proprietors who direct the work of enterprises.\textsuperscript{19}

These kinds of hopes regarding privatization rest on three false assumptions: 1) that private property will solve principal-agent problems, forcing managers to maximize profit; 2) that the market is a source of incentives for employees rather than information for managers; and 3) that enough capital will be forthcoming to infuse investment into newly private firms. The first two assumptions are based on nineteenth-century conceptions of capitalism. To see the flaw in the last assumption requires only elementary accounting: given that private savings in Eastern Europe do not exceed 10 percent of capital stock, and assuming that foreigners will buy at most another 10 percent, where is the rest of the capital to come from? As a result of such misconceptions, Poland has spent two years arguing about privatization, leaving in uncertainty the status of the state enterprises that continue to produce about 70 percent of nonagricultural output.

Democracy and Economic Performance

One would certainly wish to agree with the Bonn Conference on Economic Cooperation in Europe that "democratic institutions and economic freedom foster economic and social progress." Yet given the current state of knowledge, we do not know if this is true. The underlying premise is that democracy safeguards property rights and these in turn, by diminishing the risk to investors, foster economic growth. It may be true, as some have argued, that secure property rights foster growth. Yet, even if democracy fosters growth, it must be for reasons other than its guarantee of property rights. Moreover, we do not
know whether democracy promotes economic development, hinders it, or is irrelevant to it.

The statistical evidence is inconclusive and the studies that produced it are all seriously flawed. I reviewed 17 studies that generated 20 findings (some distinguished separate areas or periods). Among them, eight found in favor of democracy and eight in favor of authoritarianism; the other four discovered no difference. What is even more puzzling is that among the 11 results published in 1987 or earlier, eight found that authoritarian regimes grew faster, while none of the nine results published after 1987 supported this finding. Since this difference does not seem attributable to samples or periods, one can only wonder about the relation between statistics and ideology. Due to certain technical problems, I hesitate to attach much significance to these results one way or another. Hence I am not suggesting that democracy generates inferior economic performance—only that we still do not know what the facts are.

Democracy may promote economic growth for a variety of reasons: for example, because it is informationally efficient in the sense of punishing bad rulers and rewarding good ones. But democracy as such does not necessarily safeguard property rights.

The market is a system in which scarce resources are allocated to alternative uses by decentralized decisions. Yet under capitalism property is institutionally distinct from authority: individuals are simultaneously market agents and citizens. As a result, there are two mechanisms by which resources can be allocated to uses and distributed among households—the market and the state. The market is a mechanism in which individuals cast "votes" for allocations with the resources they own, resources that are always distributed unequally; the state is a system that allocates resources which it does not own, with rights distributed differently from the market. Hence the two mechanisms lead to the same outcome only by a fluke. The allocation of resources that individuals prefer as citizens generally fails to coincide with the allocation that they decide upon through the market.

Democracy's rule of "one citizen, one vote" exacerbates this divergence by equalizing the right to influence the allocation of resources through the state. It is hardly surprising that distributions of consumption produced by the market differ from those collectively preferred by the electorate, since democracy offers those who are poor, oppressed, or otherwise dissatisfied with the initial distribution of endowments an opportunity to seek redress via the state. Endowed with political power in the form of universal suffrage, those who suffer as a consequence of private property will attempt to use this power to redistribute wealth. To put it in technical terms: if the median voter is decisive, and if the market-generated distribution of income is skewed toward lower incomes (as it always is), then majority rule will call for an equality of incomes.22
The question of democracy’s impact upon the institution of private property lay at the heart of debates over the rights to vote and to associate in Western Europe and North America during the nineteenth century. Conservatives concurred with socialists that democracy—specifically universal suffrage and the right of workers to organize—must threaten property. Madison, Macaulay, Ricardo, and Marx all agreed that people with little or no property would use their political rights to expropriate those with more, thus undermining capitalism. The Scottish philosopher James Mackintosh predicted in 1818 that if the “laborious classes” were to gain the franchise, “a permanent animosity between opinion and property must be the consequence.” David Ricardo was prepared to extend suffrage only “to that part of [the people] which cannot be supposed to have an interest in overturning the right to property.”

Thomas Babington Macaulay, in his 1842 speech on the Chartists, pictured universal suffrage as the end of property and thus of all civilization. Eight years later, Karl Marx expressed the same conviction that private property and universal suffrage are incompatible.

In retrospect, these conclusions were obviously too strong. There are 14 countries in the world today that have remained continuously capitalist and democratic for the past half-century. Yet if “the people” (in its eighteenth-century singular) is sovereign, it may prefer an allocation and distribution of resources that differs from the market outcome. To cite Brian Barry, “It is precisely because the market is incompatible with the introduction of considerations of distributive justice that it cannot be accepted as the arbiter of income distribution.” As Diane Elson has nicely put it, in the market, “choice in the small does not provide choice in the large”; individuals can choose but society cannot. And society, by which I mean all the people of a country acting through a democratic process, can decide collectively that goods other than those maximized by the market should be the goal of development. Democracy inevitably threatens “property rights.”

Yet democracies are not all the same. Systems of representation, arrangements for dividing and supervising power, methods of organizing interests, legal doctrines, and the rights and obligations associated with citizenship differ significantly across regimes in which parties compete and individuals enjoy political rights. Taken together, such differences generate effects which, in spite of two thousand years of reflection and investigation, are still poorly understood.
More specifically, we need to know the conditions under which democratic institutions work and endure. By "work," I mean that they achieve such widely desired effects as economic growth, material security, freedom from arbitrary violence, and so on. By "endure," I mean that they absorb and effectively regulate all major conflicts, so that laws and other rules are changed only in a lawful and regular fashion. Odd as it may seem, the answers elude us even today.

This is not to say that there are no clues—studies of developed capitalist countries, for instance, show that until the early 1980s, better economic performance was most often enjoyed by countries in which encompassing, centralized unions negotiated with employers in the presence of a state controlled by a social democratic party. Statistical analyses of the OECD countries have shown repeatedly that lower income inequality, more extensive welfare services, a more favorable trade-off between employment and inflation, a more favorable trade-off between wages and investment, and a more favorable trade-off between growth and social policies are to be found in countries that combine strong unions with social democratic control over the government.

My own study of 14 OECD countries between 1960 and 1981 shows that the welfare of the average adult, the average worker, and the average manufacturing employee was higher in social democratic countries. (Welfare here is defined as the utility, taking into account risk aversion, of a lottery composed of market income, unemployment compensation, and social wage.) To put it simply, the only countries in the world in which almost no one is poor after taxes and transfers are those that pursue social democratic policies.27

What seems to matter for economic performance and social welfare, then, is not just "democracy" in general but specific democratic institutions and policies. Indeed, the correct question is not whether democracy as we have known it will develop in the countries that have recently experienced a collapse of authoritarianism, but rather which sorts of democratic institutions, and with what economic outcomes, are likely to emerge.

**Modernization via Internationalization?**

While the causes of the collapse of growth in the global South and East are hard to diagnose, the most common response to it seems easier to identify. It is best described as "modernization via internationalization." Different political forces in the capitalist South and the postcommunist East see no alternative but to embark on the "North-West Passage"—a road that would lead their societies to the "First World," for some "the North," for others "the West." This is a strategy of trying to adopt the political, economic, and cultural patterns (democracy, markets, and consumerist individualism) that dominate the
advanced capitalist world. Modernization becomes synonymous with internationalization.

The political and economic program that guides the most important political forces throughout Eastern Europe is to “join the West” or “reenter Europe.” This program is based on what we might call “the East European syllogism.” The major premise of this syllogism is, “If it had not been for communism, we would be like the West.” The minor premise is “Now communism is gone.” The conclusion not only asserts that Eastern Europe should and will embrace the Western model, but also promises that this model will generate the wealth and glamor of developed capitalism. Similar notions are current in Latin America, as witness Mexican president Carlos Salinas de Gortari’s promise to take his country to “the First World,” or Brazilian president Fernando Collor de Mello’s talk of integração competitiva.

This strategy appears to be without precedent in history. All previous attempts at modernization conceived of development as a project linked to national, economic, and political independence. All previous modernizing leaders asserted the importance of national cultures, called for political institutions consistent with national traditions, and envisaged growth led by national industries and oriented toward local markets. In contrast, the strategy of modernization by internationalization explicitly accepts at least a partial surrender of national sovereignty in the political, economic, and cultural realms. This strategy opens local markets to foreign penetration, abolishes cultural barriers, and seeks to model political institutions on patterns developed elsewhere. Coca-Cola is no longer the imperialist drug but the nectar of universal prosperity.

History shows that even in those cases where modernization was a strategy of autonomous national development, it tended to create enormous tensions by bringing about changes in the distribution of income, shifts in power relations, and profound cultural transformations. Far from escaping such tensions, the pursuit of modernization via internationalization actually exacerbates them. There are two reasons for this. The first lies in the strategy’s competitive nature: all countries cannot simultaneously have a positive balance of payments. The race to modernize will inevitably have its winners and losers. Moreover, the winners and the losers will not be nation-states but regions, sectors, industries, and particular social groups. Sharp increases in regional, sectoral, and social inequality across and within nations will follow. At the same time, this strategy requires national governments to relinquish some of the traditional instruments of economic policy: they peg exchange rates, they adjust demand to that of their trading partners, they subject themselves to various targets and conditions set by international lenders. As a result, national governments suffer a serious decline in their capacity to compensate losers and manage social tensions generally. Democracy suffers as well when decisions that were once controlled by
elected national officials pass into the hands of actors who cannot be voted in or out. The combination of increasing inequality and decreasing national sovereignty threatens to exacerbate social conflicts and weaken nascent democratic institutions.

The policy style inherent in neoliberal economic reform programs contributes to this process in the following way. Since the neoliberal "cure" is a painful one, with significant social costs, reforms tend to be initiated from above and launched by surprise, independently of public opinion and without the participation of organized political forces. Reforms tend to be enacted by fiat, or railroaded through legislatures without any changes reflecting the divergence of interests and opinions. The political style of implementation tends toward rule by decree; governments seek to mobilize their supporters rather than accept the compromises that might result from public consultation. In the end, the society is taught that it can vote but not choose; legislatures are given the impression that they have no role to play in the elaboration of policy; nascent political parties, trade unions, and other organizations learn that their voices do not count. The autocratic character of such "Washington-style" reforms helps to undermine representative institutions, personalize politics, and engender a climate in which politics becomes either reduced to fixes, or else inflated into a search for redemption. Thus even when neoliberal reforms make economic sense, they weaken representative institutions. In Poland, the four institutions enjoying the greatest citizen confidence when the first postcommunist government came into office in 1989 were the two houses of parliament, the Mazowiecki government, and the Catholic Church. Eighteen months into the economic reforms, the three institutions that enjoyed the most confidence were the army, the police, and the Church, in that order.

It is sobering to note how often strategies of modernization have failed in the past. Joining the First World club of democracy and prosperity is no mean feat. Since World War II, only Greece, Japan, Portugal, and Spain have done it. South Korea and Taiwan may be on the threshold; certainly they are the models that everyone wants to imitate. Yet while such accomplishments are not impossible, they have been exceedingly rare.

Is this road to the First World the only alternative available to the less developed countries of the East and South? Is this strategy viable
economically? Can it gain and keep local political support in the face of massive dislocations caused by economic transformation and its attendant social costs? What sorts of cultural forces, nationalistic or religious, is this strategy likely to unleash? Where is it likely to lead, economically and politically? What kind of an international order will it create? What will happen if and when these strategies fail to generate prosperity?

My argument throughout has been only that we must take such questions seriously. Freedom and material security are things that most people prize highly, but ideological zeal tends only to increase human suffering—and many of the currently fashionable policy prescriptions are based on nothing more than zeal. Every time I apply for a government research grant, I am required to sign a form declaring that I will not experiment on human subjects. I wish governments had to do the same.

NOTES

1. The first statement, by Barbara Labuda, a leader of Solidarity and parliamentary deputy, is quoted in Zbigniew Domaranczyk, 100 dni Mazowieckiego (Warsaw: Wydawnictwo Andrzej Bonarski, 1990). The second is from Economics Minister Vladimir Dlouhy of the Czech and Slovak Federative Republic, quoted in the Financial Times (London), 6 February 1991; while the last is from Poland's former finance minister Leszek Balcerowicz, Financial Times (London), 16 July 1990.

2. This posture is puzzling given how flimsy is the knowledge on which this advice, and the money that follows the words, are based. As one reads the successive World Bank Development Reports, one finds solid research which speaks in favor of mobilizing public savings, supports the importance of income equality and of educational and health expenditures for economic growth, and highlights cautionary tales about the dangers of financial deregulation and badly timed trade liberalization. Yet the policy recommendations are as one in insisting on the virtues of markets. The same is true of the International Monetary Fund: some of the most skeptical analyses of the Fund's policies come from its own researchers, whose work has little if any discernible impact on IMF policy. See in particular the studies collected in Mario Blejer and Ke-young Chu, eds., Fiscal Policy, Stabilization, and Growth in Developing Countries (Washington, D.C.: International Monetary Fund, 1989).


9. This discussion follows almost verbatim Luiz Carlos Bresser Pereira, José Maria Maravall, and Adam Przeworski, *Economic Reform in New Democracies* (New York: Cambridge University Press, 1992), where the reader can find evidence for the points developed here.


27. Among the seven countries compared in the most careful research on this topic to date, the percentage of persons who are poor after taxes and transfers is 4.8 (195,000) in Norway, 5.0 (410,000) in Sweden, 6.0 (3.23 million) in West Germany, 8.8 (1.61 million) in the United Kingdom, 12.1 (2.88 million) in Canada, 14.5 (446,000) in Israel, and 16.9 (36.88 million) in the United States. These figures are from Timothy Smeeding et al., *Poverty, Inequality, and Income Distribution in Comparative Perspective* (Washington, D.C.: The Urban Institute, 1990).

28. This is true of Eastern Europe as well. The Soviet Union did attempt to impose its own political institutions and economic integration on its satellites in Eastern Europe, yet the model of economic development there was to a large extent autarkic: even Stalinist development produced large steel mills in each country. Moreover, insofar as this model was internationalist it turned out to be unworkable, precisely because it came up against national aspirations.