

**The Dilemma of Simultaneity Revisited –
Or: Why General Skepticism about Large-Scale Reform Did Not
Apply to the Postcommunist Transformations¹**

by

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1 Introduction

Among social scientists as well as political actors there is little doubt about the true character of the transformations undergone by former Communist countries during the recent 15 years. The transition from Communism is widely acknowledged as the substitution of one complete system of societal institutions for a thoroughly different one, i.e. a rare example of a wholesale system change.

Taken seriously, any concept of system change implies a peculiar relationship between factors of continuity and factors of change. From a theoretical point of view, systems entail a complex, however non-arbitrary pattern of relations between their elements. Therefore, genuine shortcomings or a dysfunctional state will not be overcome by marginal changes of single variables. Instead, a change of the basic pattern, i.e. the system's identity, might be asked for. In other words: Given that minor changes of single parameters might only endanger a system's stability and performance, a different state with an acceptable level of performance and stability will only be achieved after *many* parameters become readjusted in a *coordinated* way. According to this understanding, the wholesale change of a societal system appears to be a matter of proper design as well as of adequate political action. It is inaccessible through an evolutionary process, i.e. through a series of steps of incremental improvements. Because the latter will finally stop as soon as a 'local' maximum is realized, only design-based investments combined with the ability to resist the temptation of small but limited improvements might lead to the 'global' maximum of a thoroughly different system design.²

With the notion of system change – understood as a series of 'large-scale' institutional changes – in mind, it is possible to identify a peculiar theoretical problem associated with any serious analysis of what has happened in former Communist countries during the recent one and a half decades. At first, this problem poses itself on the level of empirical facts. As is widely acknowledged, a considerable amount of valuable resources or socio-technical skills was neither passed on by the Communist system nor generously provided by Western welfare states in order to smooth the path from one system to the other.³ Secondly, a similar lack of prerequisites was obvious on the level of social and political theory. Although Marxist theory once offered some crude hypotheses about the transformation of a 'ripe' capitalist system into a nascent socialist one, neither (Neo-) Marxist nor mainstream theories of social change did entail any idea of how to fabricate a modern pluralist political system together with a capitalist market economy from the scratch.

Given the lack of empirical as well as theoretical provisions, the series of system changes in Central and Eastern Europe provide an extraordinary opportunity for the comparative analysis of large-scale institutional change. However, whereas the reform process undergone by former Communist societies soon became the focus of much attention within the social sciences, there was only little awareness of their suitability for comparative research of thor-

² This line of argument refers to the 'theory of second-best' by Lipsey and Lancaster (1956/57) as well as the notion of 'gradient climbing' made by Elster (1979: ch. 1).

³ This, of course, does not apply to the transformation of the German Democratic Republic as it was generously sponsored by the Federal Republic of Germany (Wiesenthal 1999).

oughgoing institutional change. Although a lot of attention was paid to the introduction or change of single institutions as well as the structural changes undergone by industrial sectors, policy areas and distributional patterns, new insights into the possibility as well as the implementation of system still appear to be lacking.

Because of the simultaneous occurrence of thoroughgoing changes in the economic, social and political subsystems of society the institutional transformations in Eastern Europe provide a unique series of large-scale reforms. At first glance, the sheer number of up to 27 countries having departed from Soviet-controlled Communism appears to be an attractive sample for comparative analyses. The aims of research might refer to the similarity or diversity of initial conditions, the choices made in order to initiate change, the outcomes achieved at different points in time, the peculiar patterns of 'local' prerequisites as well as the national or regional obstacles to success. On closer look, the insights to be derived from empirical studies might go far beyond the realm of 'transformation studies' targeted at the former Communist world. They might include provisional answers on the question of how societies might improve their control capacity vis-à-vis a complex policy agenda made up of large-scale problems such as maintaining economic growth and securing social integration in a 'globalized' economy or effectively dealing with developmental problems such as population growth, malnutrition, insufficient water supply, soil erosion and environmental damage.

Although social change is an ubiquitous phenomenon, instances of change are extremely rare in which political planning, conscious decision-making and coordinated efforts result in outcomes close to what was aimed at on the outset. Thus, the non-arbitrary way in which political actors as well as ordinary citizens in Communist countries have organized a process of consciously chosen changes could reveal certain insights into a broader set of factors contributing to 'the possibility of rational politics' as put by Jon Elster (1987).

Setting aside the possibility that this opportunity for the improvement of social theory remained underemployed because there are more relevant topics of research, one might come up with another explanation for the lack of articulate interest in the conditions of successful 'grand strategies'. This explanation refers to a couple of beliefs and theoretical assumptions broadly held in political science and political sociology.⁴ According to them, large-scale social change if intentionally directed is seen not only as extremely unlikely, but also, if attempted nonetheless, bound to fail. In the mainstream social sciences systematic skepticism prevails about the possibility of what they name as 'holistic reforms'.

In order to highlight the possibility of acquiring a valuable insight into the conditions of design-guided societal change – or: the dimensions of a concept of political possibility – this paper concentrates on the theoretical side of the gap that appears to exist between theory-based skepticism, on the one hand, and indications of successful transformations in former Communist countries, on the other. In the next section (number 2), the reader is invited to cast a view first on the so-called 'dilemma of simultaneity' referring to the simultaneous introduction of a democratic political system and the institutions of market economy. After adding

⁴ This is to say, that theoretically based skepticism was (and still is) more popular among sociologists and political scientists than economists.

a word on shock therapy often seen as the most inappropriate version of ‘reform holism’ (section 3) we will have a look on the ‘impossibility theorem of holistic reform’ as a more general, however hidden paradigm in post-war social science (section 4). This theorem postulates some further problems of intended change that might even have enhanced what was assumed to be the peculiar risks and dilemmas associated with the departure from Communism. After making a brief account of some facilitating factors as well as prudent policy choices allowing for successful reforms in Central and Eastern Europe (section 5), an attempt is made to delineate the ‘possibility space’ of wholesale institutional changes that must no longer be seen as a matter of theoretical impossibility or a unique historical anomaly (section 6).

2 The ‘Dilemma of Simultaneity’ and Further Problems

As we learned from historians, Western democracies with their well-established market economies emerged in a certain temporal order: the market – or capitalism – came first together with the partial liberation from the feudal rule. Democracy, however, was achieved only after the vast majority of citizens had found their new market-related roles as either owners of capital, workers or the members of the, later on, rapidly growing middle classes. Particularly, workers first had to associate in trade unions and labor parties before they were acknowledged as legitimate participants in decision-making on industrial affairs. Besides the remainders of the feudal aristocracy, all the ‘new’ social classes won the right to vote not before their economic position, or even: economic power, had become visible. In fact, inclusive political participation, i.e. universal suffrage, appears to be a logical extension of the (real or formal) freedom enjoyed in the economic sphere. Only as the third step after gaining economic and political freedom the right to social security became established by institutions of the welfare state.⁵

Given that the collapse of Communism had its take-off not in the economic but in the *political* sphere, the recent transformations obviously follow a reversed temporal order. As a consequence, having started with political liberation, the process of system change appeared to be subjected to certain risks and problems that look extremely difficult to be dealt with successfully. Among them the *dilemma of simultaneity* gained considerable prominence. In an influential paper entitled ‘The necessity and impossibility of economic and political reforms’ Jon Elster⁶ already in 1989 outlined the genuine problematic of simultaneously establishing the institutions of representative democracy and a market economy. What later on was named the ‘dilemma of simultaneous reforms’⁷ pointed to a problem that seemed to be closely related to the policy-related controversy between the adherents of either radical or gradualist reforms.

⁵ Cf. Marshall (1964)

⁶ Cf. Elster (1990).

⁷ Cf. Offe (1991).

The dilemma theorem maintains that an unavoidable blockade of the reform process would result – or that tremendous costs of transaction were to be incurred – when crucial decisions over the allocation of property rights had to be made *after* the introduction of universal suffrage and responsive democratic governments. Underlying this prediction are two assumptions. Assumption number one refers to the presumed negative effects of liberalization, price reform and privatization on the living conditions of large strata of the citizenry. Because under Communism workers as well as other occupational groups benefited from the government's readiness to subsidize – or control the prices of – basic amenities, housing, utilities as well as certain services. Thus, as a consequence of economic reforms, a majority of people would suffer from severe price increases as well as lay-offs and increasing unemployment. Indeed, later on, macroeconomic data showed that the social costs of transition amounted to a 25-50 per cent decline of the gross domestic product during the first years after transition.

Assumption number two relates to the most likely impact of the economic reforms on the use made by the people of the channels of political participation already conquered. As was to be expected, only in the very beginning would the citizenry of transiting countries appear willing to accept a 'blood-sweat-and-tears' strategy of change. When after a two or three years period the fruits of change were seen as insufficient, popular support for thoroughgoing, however painful reforms would plummet. Only for a limited period of time, the new 'negative' freedom of true democracy would work as an adequate compensation for the 'positive' freedom of guaranteed incomes (mostly earned irrespectively of individual performance) lost over the course of the system change.⁸

Because democratization involves the extension of effective opportunities for political participation as well as the sensitizing of politicians to popular feelings and demands, the inevitable social costs of economic change were expected to trigger strong popular sentiments against the course of reforms. Any parliamentary opposition eager to gain office were to experience a strong incentive to present itself as the natural protagonist of anti-reformism, i.e. attempt to maximize its attractiveness to exactly those segments of the electorate that opposed the transitory costs of change. Thus, it was assumed that almost any attempt by a democratic government to engage in thoroughgoing economic reforms that deliver their fruits only after a five or more years period of time, was bound to fail. Whereas the width and depth of this 'valley of tears'⁹ obviously depended on how strictly governments would adhere to an ideal concept of wholesale institutional change, the process of change itself appeared to be severely endangered by the risk aversion and opportunism of self-interested politicians who would rank their chances of re-election higher than the quality of policy choice.

Besides, however logically connected with the dilemma of simultaneity further objections were raised against the idea of concentrated large-scale reforms. Among them the following deserve to be mentioned.

There was a fear that the *societies' capacity for 'institutional learning'* would be overstressed by the simultaneous implementation of numerous interdependent institutional rules. There-

⁸ Cf. Bauman (1994).

⁹ Cf. Sachs (1991).

fore, one should not expect too much of a society's capacity to adopt new ways of social coordination entailing changed patterns of individual and collective behavior. This does not mean that the capacity of individual or collective actors was seen restrained by obsolete beliefs and traditions such as the often mentioned 'socialist legacies'. Instead, the argument pointed to the sheer volume of altered facts, norms and social expectations that actors would have had to take into consideration when choosing an appropriate course of action. Ample evidence of a limited capacity to adapt to environmental change is provided by certain consolidated democracies such as Germany. In many instances of reform, the latter appeared capable of adapting to only incremental portions of intended change (Lindblom 1959) or 'piecemeal technology' (Popper 1972). Given widespread vested interests and a high level of institutional inertia, even moderate projects of reforming the tax system, certain parts of social welfare or the institutions of the labor market regularly turn out to be too demanding.

Further trouble was expected to occur because of the *inadequacy of institutions introduced by arbitrary decisions*. This refers to the peculiar mode of institution building after a revolutionary turmoil. Under such circumstances, (new or changed) institutions do not emerge in an evolutionary process of random variation and subsequent selection according to converging expectations and commonly held standards of social order. Rather, institutions are created by 'fiat', i.e. as the outcome of some procedures of social choice that are more or less exclusive because of the remoteness of representational democracy. As usual, the process of decision-making not only is explicitly discretionary with regard to the choices at hand, it, furthermore, comes to an end only by a majority vote going over a minority with different outcome-related preferences. If, however, the acceptance and efficacy of institutions depends on their appearance as unique and thereby highly legitimate solutions to current problems, their recognition might be hampered by the process of being created.

Common rules and norms that apparently came into effect by discretionary decision-making bear an air of contingency or even arbitrariness. Because they obviously were not the only option possible, people might doubt their value and undermine their validity by reasoning 'they could well have chosen a rule that better suits my own situation!'. The more things had to come under scrutiny and the more they are changed through a once-and-for-all strike, the more the procedure would resemble an act of sheer arbitrariness. Or, to put it the other way around: The more changes ambitious proponents of reform would wish to effect simultaneously, the less social acceptance and institutional validity they may count on.

The presumed lack of popular acceptance might be traced, at least partially to an obvious *lack of cultural prerequisites*. A standard objection raised against a wholesale change of the institutional order and, at the same time, a first-hand explanation of institutional failure refers to a mismatch of 'Socialist' cultural givens and the functional prerequisites of Western institutions. It was said e.g., that the core institutions of a market economy such as private entrepreneurship, contractual law, market prices and competition must rely on certain individual habits and collective values that the citizens of Communist countries were denied the oppor-

tunity to adopt.¹⁰ These habits and values could only emerge during an extended period of practical experience and situational learning.

In his study on two different political cultures in Italy, Robert Putnam (1993) discusses certain virtues and dispositions that are said to be at the root of a self-governing civil society. Among them is the readiness to participate in public debate as well as associate with like-minded people. Again, these symptoms of 'social capital' were extremely rare under Communism. Accordingly, insiders lamented the deficit in public spirit, the prevalence of pre-modern feelings of community, a common lack of political culture even a certain legacy of 'civilizational incompetence'.¹¹

Last but not least, there might even have been *functional deficits on the part of imported institutions*. An implicit assumption made by the internal as well as the external participants of transformations was that unambiguous ends and means were given in form of Western institutional models. However, on closer inspection, this assumption might turn out a heroic simplification. Shifting the focus of attention to current debates on public policy and institutional reform in Western democracies such as Germany, one might recognize numerous doubts about the adequacy and performance of institutions originating, without exception, in the late 19th century or during the first half of the 20th century. Given the need to accommodate rapidly the social impact of new technologies and integrating global markets, few of these early institutional achievements could claim to be the most efficient solutions to current problems.

Two possible consequences have to be mentioned. First, because the Western institutional legacy was (and still is) subject to intense debates, its implementation in a 'foreign' context might well have been hampered by the disputed character of certain key features. Second, given that imported institutions were implemented with maximum precision, they would probably display the exact same shortcomings which, today, attract criticism in their original context. Alternatively, if imported institutions were implemented in a modified form, the proof of their adequacy would rest on the – inevitably limited – functional knowledge of the reformers.

3 A Word on Shock Therapy

Taken altogether, the arguments and objections mentioned above converge to solid skepticism about the sheer possibility of such a package of reforms as the reformers in Central and Eastern Europe were going to realize after the demise of Communism. More or less the same arguments have been raised in favor of a gradualist approach to economic reform – as opposed to the so-called shock therapy.¹²

¹⁰ Cf. e.g. Malle (1994).

¹¹ Cf. Ekiert (1991) and Sztompka (1993).

¹² Cf. e.g. Brada (1993) and Pickel (2002).

Shock therapy is said to have been implemented with the consequence of tremendous social costs at least in Poland, Russia and East Germany. Leaving aside the latter two cases as rather inappropriate examples of shock therapy, a closer look on its implications might help to understand how ambitious reformers came to regard it a preferable way of action or, at least, a heuristic means for identifying the major policy components of economic transformation as well as their proper sequencing. There are strong arguments that could be raised in favour of this notorious 'blueprint' approach to macroeconomic restructuring. Its most significant value might have been that it provided a list of ideal policy measures held necessary for a successful departure from the state economy. While it was questionable whether such a catalogue could ever be implemented in a consistent way, the concept of shock therapy offered a yardstick by which to measure the 'task awareness' of reformers as well as their eventual deviations from the ideal path.

The concept of shock therapy comprises five substantial measures and a procedural one:¹³ (1) price and trade liberalization, (2) sharp cuts in state subsidies, (3) the attainment of currency convertibility subsequent to the devaluation of the exchange rate. (4) incomes policies for wage control, (5) budget reforms, and (6) a strategic plan to apply measures 1-5 rapidly and simultaneously. Since transition costs were expected to increase in the course of economic transformation, shock therapy in the above ideal form aimed to minimize the total costs of transition. At the same time, but for different reasons, shock therapy would have worked as a kind of insurance against political failure by concentrating all painful interventions at the start of the transition. This promised to enable reform governments to persevere despite any opposition provoked by harmful results. A pattern of policy implementation based on a compact timetable would be considerably superior to a sequence of individual reform policies that are evaluated separately without taking into account their aggregate effects.

Understood as a coherent policy approach, the logic of shock therapy appeared to be two-fold. On the one hand, it relied on the consistency of a set of functionally interdependent measures making up for the adequacy as well as the holistic quality of the approach. On the other hand, it offered protection to political actors against their temptation to behave opportunistically. Once the entire package of reform measures would have been implemented, it would be more costly to revise them than if it were the case when a gradualist policy approach had been followed. However, since shock therapy required that all fundamental decisions be made at the start of the transformation process and remain largely unaffected by their emergent effects, it often was disliked as a rather rigid approach. In particular, the once-and-for-all approach appeared to be too inflexible to deal with unacceptable social costs of change. Since there seemed to be no guarantee that the initial decline of economic performance would soon be followed by regained growth and increasing prosperity. Politicians (and advisors to them) who had a stronger belief in their political skills than in economic reasoning tended to regard the *political* management of the transition crisis to be decisive – and refrained from shock therapy.

¹³ Cf. Sachs (1989, 1991), Fischer/Gelb (1991) and Brada (1993).

4 An Impossibility Theorem of Holistic Reforms

As is already stated in the introduction, more general doubts about the possibility of large-scale reforms are part of mainstream social sciences for long. Even before 1990, a set of peculiar assumptions associated with ‘state of the art’ of political science and political sociology explicitly denied the possibility of voluminous intentional reforms. Nothing less credible and sensible about which to seriously theorize existed – perhaps except the idea of a legitimate world government or an encompassing global religion. The idea of consciously redesigning an entire society was deemed a genuinely unconvincing if not foolish one.

Of course, that the idea has not been taken seriously had a lot to do with the bitter experiences endured under the dictatorship of both Fascism, in particular its brute version of German National Socialism, and Soviet Communism. A lot of skepticism about holistic reforms was fed by the more recent information about the social costs that the people in the Communist world had to bear during the attempts at establishing and maintaining a Communist social, political and economic order.

What appear to add to an ‘impossibility theorem of holistic reforms’ are various empirical and theoretical findings with solid foundations in theoretical politics as well as political theory. Their basic skepticism evolved at the crossroads of some different, however complementary results of the public policy analyses such as those done by Charles Lindblom (1959), the studies on implementation failures in public service reforms (Pressman/Wildavsky 1979; Mayntz 1980), the highly original and seminal fruits of research in organizational decision-making and the psychology of boundedly rational choice inspired by the late Herbert A. Simon and its colleagues at the Carnegie Mellon Institute of Technology at Pittsburgh,¹⁴ the discussions about the assumed non-governability of democratic systems,¹⁵ and, last but not least, Fritz W. Scharpf’s investigation into the ‘Joint Decision Trap’ and the predominance of ‘negative’ over ‘positive coordination’.¹⁶

The paradigm’s epistemic foundations were already in place before 1970. Thus, the aforementioned findings met with a particular framework of social theory and epistemic reasoning. Major components are the well-founded arguments of Karl Popper (1972) against the ‘historicist’ brand of sociological and politico-ideological reasoning. Popper’s reproach of ‘holism’ neatly fits to the argument put forward by Friedrich Hayek¹⁷ in several writings the common message of which is an articulated distrust of man-made institutional order (as opposed to the results of evolutionary processes). A further major component is made up by the mainly cognitive research around Simon’s notion of ‘bounded rationality’ focusing on both the complexity of real-world phenomena and the limitations to individual computational competencies. In Germany, the anti-holistic skepticism received strong support in the writings of the social philosopher Niklas Luhmann whose sociological systems theory draws extensively on the empirical findings of the Carnegie Mellon School.¹⁸ Several authors

¹⁴ Cf. e.g. Simon (1976) and March/Olsen (1976, 1989).

¹⁵ Cf. e.g. Crozier et al. (1975) and Hennis et al. (1977).

¹⁶ Cf. Scharpf (1988, 1993).

¹⁷ See e.g. Hayek (1969).

the empirical findings of the Carnegie Mellon School.¹⁸ Several authors succeeded in advancing their skeptical vision of design-based large-scale reforms through coining catchy phrases such as ‘the science of muddling through’¹⁹, ‘the garbage can’ model of decision-making²⁰, the exclusive option of ‘piecemeal technologies’²¹ or ‘the tragedy of the politicians’ dead hands’.²²

The systematic skepticism about any approach to ambitious policy-making as exemplified by the phrases cited above appears to be based on acknowledged theories on the three major levels of social analysis. As already mentioned, one pillar is founded on insights into the limited capacity of human individuals to form rational beliefs and act according to the rules of substantive rationality. This line of argument coincides with the core of Simon’s notion of bounded rationality. Another pillar consists of what is known about the obstacles to rational social choice on the level of organizations designed for the delivery of public goods. These include the disturbing effect of free-riding according to Mancur Olson’s ‘logic of collective action’ as well as Kenneth Arrow’s ‘impossibility theorem’. The latter claims the logical impossibility of devising a mechanism of collective choice that, under certain reasonable conditions, allows to produce a consistent set of group preferences from the preferences of all the individuals making up the group.²³ This, obviously, concerns the possibility of achieving the ‘common good’ through real-world processes of public policy. Finally, a third pillar has to be mentioned on the macro level of entire societies. It relates to the impossibility of constructing a notion of system rationality that, instead of being bound to individual or collective particularism, represents something like the ‘true’ identity and necessary conditions for survival of the maximum encompassing social ‘system’. Such a notion, among other reasons, would strongly contradict any understanding of the empirical value plurality and sociological constructivism.

Whereas the aforementioned axioms and assumptions would hint at some systematic deficits and intrinsic problems with which ambitious reforms in modern democracies are burdened, it might be even more likely that they will impinge on those societies that lack the institutions of democracy as well as a market economy. Thus, a ‘Communist system’ going to abandon itself appeared to be confronted with a problem load that would easily exceed anything similar in a well-established democratic decision-making environment.

5 Facilitating Factors and Prudent Policy Choices

Although the list of obstacles and risks to ambitious institutional change as outlined in sections 2 and 4 might not be seen conclusive, it may serve as an indication of the tremendous

¹⁸ See e.g. Luhmann (1984 or 1995).

¹⁹ Cf. Lindblom (1959).

²⁰ Cf. Cohen et al. (1972).

²¹ Cf. Popper (1972).

²² Cf. Luhmann (1989).

²³ Cf. e.g. Arrow (1963).

problem load the Postcommunist transformations were burdened with. Fortunately, after a decade of thoroughgoing change in former Communist countries, one no longer feels compelled to rely on general theories or fortune telling in order to assess the variance of outcomes of the system change. Even a regular glance in the newspapers might provide a realistic impression of what has happened in large parts of Central and Eastern Europe. Taken altogether, there seems to be little ground for maintaining such a skeptical position as suggested by the dilemma of simultaneity and the impossibility theorem: “both democracy and market reform have been positively correlated with economic growth” (Åslund 2001: 42). Obviously, in many cases the system change as such, as well as the subsequent transformations in almost every sphere of society, were complicated by the problems discussed in this paper, not to mention the problems rooted in national peculiarities and the common shortage of resources.

Nevertheless, there are significant indicators of success. With the exception of Albania and some countries that formerly were part of the USSR or Yugoslavia, there is literally no one country that could not claim to have made some progress. This means, there are a lot of outcomes that – to a certain degree – resemble the original intentions and goals of change. Of course, there are huge differences among the sample, in particular, with respect to the level of democratization achieved²⁴ as well as the degree to which the economy has been restructured and regained growth.²⁵

From this perspective, a theoretically based explanation of the transformation processes not only has to question the assumptions implicit in the impossibility theorem but also to look out for positive factors facilitating change. An assessment of both, the unconvincing premises of the impossibility theorem and the alleviating factors might tell us which elements of the theorem are to be dropped or in need of refinement.

Before going into details, let me explain why this theoretical point of view deserves more attention than it was given in the vast majority of transformation studies. First, this is because even today there remains much ignorance of the fact that a huge corpus of social theory suggests systematic skepticism whereas the outcomes of the Postcommunist transformations are at variance with the predictions derived from theory. Secondly, even proponents of the impossibility theorem might wish to highlight features that contradict the subsuming of the recent cases of system change under the rule of a general theory. They might argue, that the impossibility theorem extends only to modern democratic societies and is misinterpreted when employed to assess the changes taking place in Postcommunist countries. Therefore, sorting out a peculiar set of facilitating factors might be a decisive step to a more differentiated and, at the same time, more encompassing theory of large-scale design-based reforms. This is why one has to give credit, in particular, to positions that claim to name alleviating factors of change that are exclusively to be found in the transition from Communism.

²⁴ According to Freedom House, in 2000, eight of the 13 European Postcommunist countries were assigned the exact same degree of political freedom as it was held by the consolidated democracies of Britain, France, Germany and Italy. In May 2004, these undoubtedly democratized countries became member states of the European Union.

²⁵ Cf. e.g. de Melo et al. (1997), Hellman (1998), Havrylyshyn et al. (1998) and Beyer (2001).

On the one hand, there are factors that appear to be rooted in the institutional and value structure of the Communist system. First, one has to mention the absence of an articulated socio-economic cleavage in the largely egalitarian Communist society. This factor accounts for the weakness of organized veto powers, above all narrow-minded interest associations. It, further, contributed to a low level of strain in government formation and parliamentary decision-making. Second, almost everywhere broad popular support for the project of a radical transformation of the institutional order has been enjoyed because of the false belief that pluralist democracy together with economic freedom guarantees an immediate rise in the standard of living. At least, these two factors hint at the presence of an early 'window of opportunity' that reformers might have made use of or missed.

On the other hand, under Communism, where corruption and favoritism governed much allocative decision-making, people who wanted to improve their living standard had learned to rely on household production and working in the second economy. Thus, even after the collapse of Communism, expectations were kept low and patience prevailed over the worst on the way to a market economy: people were 'suffering in silence' (Rose 1999: 54). As a consequence, the expectation that the reform project was endangered by those parts of the population that would suffer from the inevitable decline of real income turned out wrong. While popular dissatisfaction eventually led to frequent changes in office (von Beyme 1995) – usually with the new governments continuing on the path of their predecessors – the strongest opposition seems to have come from some winners of reform (Hellman 1998). This obviously contradicts the assumption made in the dilemma thesis.

Whereas the costs of transition were widely distributed, some immediate benefits turned out to be concentrated on a small group of privileged elites. Consequently, neither the predicted association between radical reforms and social hardship – i.e., the deeper the decline in output, the higher the social costs of reform – nor the expected correlation between the extent of economic reforms and the level of unemployment could be substantiated in the more successful countries (Hellman 1998).²⁶ Instead, wherever the reform process was blocked, a major oppositional force was made up by those who had gained in the initial round of privatization. Thus, the early beneficiaries of the collapse of the Communist system often turned out as an obstacle to further democratization, economic competition and the rule of law. The incomplete pattern of institutional reforms in Russia as well as the temporary standstill or even backlash of reforms in Belarus, Ukraine or Bulgaria have to be attributed not to the power of popular movements but to the rent-seeking strategies of former or even new elites.

Even the obvious lack in the 'moral' prerequisites of the new institutions turned out to be less damaging than it was expected. Though many new legal rules were insufficiently based on a proper functional understanding in the early stage of implementation, they could well become effective through increasingly positive feelings among the population as well as a certain 'educational' impact such as democratic institutions had after their introduction in early West-

²⁶ Csaba (1997) pointed out that neither the assumed trade off between inflation and unemployment appears to hold.

ern democracies.²⁷ Thus, 'socialist values' did not seriously hamper a proper understanding of democracy and market economy as was assumed by social researchers (e.g. Crawford/Lijphart 1997), but instead lost their impact quite rapidly. As far as etatist attitudes prevailed among the population, their role in the early years of transformation was not all negative: reform elites were capable of counting on more compliance for top-down interventions than their counterparts in Western democracies.

These peculiar circumstances rooting in the past made up for an early 'window of opportunity' that, when correctly identified by the reformers, allowed for greater chances of success than postulated in the impossibility theorem. A second line of arguments refers to the strategic and policy choices made by the reform governments. At least afterwards, some of them appear to be adequate responses to problems that proponents of the impossibility theorem assumed unresolvable.

Though the controversy over shock therapy versus gradualism rendered obsolete after a couple of years, certain features of the radical approach to economic change might still serve as a guideline in the search for 'critical' policy choices. On the one hand, it became obvious that concentrating many painful interventions at the start of the transition worked as a kind of insurance against political failure. By doing so reform governments could enable themselves to persevere despite the opposition provoked by harmful intermediate results. On the other hand, also the technical advice of implementing the least acceptable measures as early as possible proved successful. This is true, particularly, for the set of stabilization policies.²⁸ If reformers were lucky to give priority to the stabilization program, they were rewarded with an above average probability of economic recovery (Beyer 2001). This, in turn, protected them against the 'populist threat' to indispensable reforms as it is described in the 'dilemma of simultaneity'. As a major prerequisite for growth, stabilization measures brought down high rates of inflation. The more 'advanced' reformers were relatively successful in slowing down inflation that followed from price liberalization, while 'intermediate' performers suffered from longer and more severe inflation. In general, performance was better where the stabilization program had been completed earlier and structural reforms were rather advanced (Havrylyshyn 1998; Wyplosz 1999).

An important element of the stabilization program and a precondition of an increasing growth rate was the establishment of fiscal discipline. However, because of the decline in GDP a 'fiscal constraint' to rapid reforms was expected. A cross-country comparison by de Melo, Denizer and Gelb demonstrated a peculiar virtue of boldness as 'fiscal revenues and expenditures have tended to remain high, relative to GDP, in advanced reformers, and fiscal deficits have been noticeably smaller than in the slower reformers' (de Melo et al. 1996: 27). But the stabilization process could not be sustained in countries that had both enduring fiscal deficits and a lack in structural reforms (Fischer/Sahay 2000). With reference to further findings, the conclusion was made that 'there is no clear relationship between the fiscal balance

²⁷ This might also impact on the content of publicly claimed interests. Acting in a lively public sphere might well have the consequence of individuals 'laundering' their selfish preferences (Goodin 1986).

²⁸ The measures for stabilization comprise tight monetary and credit policies, wage control policies, monetary reform and non-inflationary sources of financing the budget deficit (Fischer/ Sahay 2000).

and GDP growth' (Fischer/Sahay 2000: 10). This means that fiscal stabilization is not significant on its own, it matters because of its effect on inflation (Wyplosz 1999).

Three more observations relative to the start, the sequencing and the speed of reforms are to be mentioned. As we already pointed out, implementing the package of reforms as early as possible proved superior: 'It is during that period of 'extraordinary politics' that reforms can be decided and implemented most easily' (Wyplosz 1999: 8f.). Although statistical analysis tells us that faster liberalization is better for growth (Berg et al. 1999), a faster path does not offset the costs of adjustment. Therefore the speed of policy implementation turned out to be less significant for economic recovery than the sequencing of reforms (Beyer 2001). Reformers which stabilized first and early on in the reform process achieved a relatively higher rate of growth. In an optimal temporal pattern, liberalization had to be implemented only after some stabilization measures proved effective. In terms of proper sequencing, privatization was less significant for the recovery of growth when it was started at the beginning of the transition process than later on. Comparative analysis shows that in order to secure the best possible results of economic change, macroeconomic stabilization should precede all other reform policies including the package of structural reforms (Fischer/ Sahay 2000).

There appears to be much more to learn from close inspection of the details of economic reform, in particular the role of initial conditions, the structural reform of firms and industries, the methods of privatization, the role of FDI in the development of the private sector,²⁹ and, last but not least, the transformation of the social security system.³⁰ For reasons of brevity, we refrain from doing so in order to cast a glance on the political system as the locus of (more or less) prudent decision-making.

Beside the policy choices mentioned above and the selection of an efficient temporal order of change, the more successful governments also proved creative with respect to the dimension of politics. On the one hand, the choice of an electoral system and the emergence of a competitive party system have to be regarded as outcomes of deliberate decision-making.³¹ Several countries very early on created tripartite commissions of interest articulation and compromise that called upon trade unions to enter into binding agreements on wage restraint with government officials. Although these commissions lost influence over the process of consolidation, they at least worked as a kind of 'preemptive strike' that indirectly contributed to a low level of industrial conflict (Matthes/Terletzki 2002). This option was even more valuable when foreign investors made comparative assessments of investment sites and governments prepared their country for becoming a member of the European Union.

Taken altogether, there is little ground for maintaining the suspicion that all incidents of change exhibit the signs of 'path dependence' (Stark 1992). Apart from the trivial meaning that there are very few phenomena that lack any mark of the past, path dependency in the

²⁹ More detailed findings are reported in Wiesenthal/Terletzki (2002).

³⁰ See Wagener (2002) and Matthes (2004).

³¹ For a deeper investigation into the role of intentionalism in the emergence of party systems see Chan (2001).

strict sense occurs less frequently than originally expected.³² As far as the theory of path dependence provides an adequate background for assessing the outcomes of system change, we might reach at two preliminary conclusions. First, efforts for the consistent implementation of a series of designed reforms did not turn out as strictly impossible. Given certain functional prerequisites, the capacity to identify situational resources of change and sufficient political skills (which, in the new democracies, often appeared to be of astonishing quality) most parts of the envisaged wholesale societal change were successfully mastered. Secondly, there are only few examples that fit to the pattern of path dependence as they demonstrate the survival of institutions that appear inferior (or less efficient) than some available alternative.³³

6 Conclusion

Assessing the peculiar way in which the aforementioned aspects of social change deviate from the assumptions that constitute the dilemma of simultaneity as well as the impossibility theorem, we have to take a look at each of the three different levels of social analysis as mentioned in section 4: the micro or individual level, the meso level of organizations and social choice, and, finally, the level of macro phenomena.

Actually, on the *micro level*, we do envisage most of the phenomena related to obstacles of thoroughgoing reforms: cultural legacies, inadequate values, unrealistic short-term expectations and diverging policy preferences. However, what appears to be ignored by the proponents of skepticism, most of these phenomena could be dealt with through prudent choices of policies and politics. Even the strongest normative legacies lacked the power of determination. Furthermore, another set of critical factors located at the micro level, 'failed' to make up for a serious obstacle to change: the limits to individual rationality. This, obviously, is not because such limits were absent or the techniques of boundedly rational decision-making were easily replaced by the one-best maximizing strategy. To the contrary, all the obstacles to 'substantive' rationality proved real. However, there were also some tactics and strategies through which reformers could successfully respond to the limits of rationality, among them the recourse to exemplary models, actions and empirically tested institutional patterns. Several other tactics still wait for being detected.

On the *meso level* of organizational particularism and dissatisfying social choices we find the empirical facts quite close to what theoretical skepticism did postulate. Although only few of the events and difficulties originally predicted became manifest, there is little doubt that they are correctly identified in theory. The fact that they did not account for serious trouble in the course of transition turns out to be attributed to the peculiarities of the Communist system. On the one hand, the harmonization of incomes and social status – often quite close to the poverty line – and the effective repression of bottom-up associations that might have created

³² See the discussion of path dependency in Beyer/Wielgohs (2001).

³³ This argument refers to the original meaning of path dependence as an explanation of the survival of inferior institutions in a context where more efficient solutions were available (North 1991).

'Putnam-type' social capital, on the other, amount for the reduced impact of interest heterogeneity as well as organized interests. Given this divergence from the situation in established democracies, the experience with the latter's collective social actors does not extend to former Communist societies.

Relative to the *macro level* of system characteristics things turned out ambiguous. On the one hand, several countries had started to question the society's identity by resorting to ethnic distinctions in ways that outsiders were not prepared to expect. On the other, Western-style democracy and the market economy did, in fact, serve as institutional models of considerable instructive quality. They informed institutional choices even in cases where the model had to be adapted to 'local' circumstances. However, certain preconditions had to be met if the imported models were to work properly. Transiting societies had to provide sufficient individual freedom of action – including the right to associate and compete for political representation – as well as the rule of law in order to develop the capacity to learn from errors. Individual and collective freedom worked as necessary preconditions for institutional learning and the consolidation of the new system. As a consequence, we have to admit that modern societies do well entail the chance of providing sufficient knowledge about their essential elements and processes. Otherwise, cross-border learning would not have occurred.

Whereas the need to revise the assumptions of the impossibility theorem becomes quite clear from the observations resumed above, there is a second line of argument that seems worth to be followed in further research. It starts with the question whether the cases of Post-communist transformation represent the only reason to doubt the validity of generalized reform-related skepticism in the social and political sciences. The answer is no. Inspired by what we observed in many Central and Eastern European countries, we might look out for more examples of successful large-scale reforms, be it as the result of a concentrated institutional revolution or at the end of an extended period of incremental, however well-directed changes.³⁴ There is good reason to redirect some attention paid by political analysts from the cases and factors of failure to those of intended success. The latter as well as the former promise to deliver valuable insights.

³⁴ See e.g. Wiesenthal (2003).

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