

The Opportunity Structure of Large-Scale Reforms: Good News from Post-Communist Central Europe

by

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Abstract

After a decade of, by and large, successful thoroughgoing reforms in several Post-communist countries, it has to be recognized that the results of change contradict certain assumptions commonly held valid in political science. The paper outlines major theoretical premises of what might be summarized as the 'impossibility theorem of holistic reform' and examines the discrepancy between theory-based expectations, on the one hand, and rather successful endeavors of policy reform and institutional policy over the course of transition. Thorough institutional changes have been implemented through demanding policy programs concerning fiscal stabilization, structural reforms and privatization. Reform governments proved apt to strategic planning as well as policy-oriented learning when they identified windows of opportunity and adapted to the international environment. They secured the feasibility of the reform packages by choosing a proper way of sequencing as well as creating pre-emptive forms of conflict resolution. In this paper, some empirical findings are confronted with the theory-based propositions. Relative to the discrepancy between theory and practice, suggestions are made concerning the validity of the skeptical theoretical assumptions.

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1 Introduction

Among political actors as well as political scientists there is little doubt on the true character of the transformations undergone by former Communist countries after the year of 1989. The transition from Communism is widely acknowledged as the substitution of one system of societal institutions for a completely different one, i.e. the rare example of a wholesale system change.

Taken seriously, the concept of system change implies a peculiar relationship between factors of continuity and factors of change. Insofar as systems entail a non-arbitrary, complex pattern of relations between their elements, possible shortcomings or dysfunctional features 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 the system's stability and performance, a state of performance that is both acceptable and stable will only be achieved after *many* parameters become readjusted *simultaneously* and in a *coordinated* way. According to this understanding, the change of a societal system appears to be both a matter of proper mapping and prudent piloting, i.e. adequate political action. It is neither accessible through an evolutionary process, nor through a series of incremental steps. 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.¹

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 decade. 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 the established democracies in order to secure the path from one system to the other.² Secondly, a similar lack of prerequisites was obvious on the level of social and political theory. Although political Marxism once offered some crude hypotheses about the transformation of a 'ripe' capitalist system into a nascent socialist one, neither any of the current versions of Marxist theory nor common theories of social change do entail an idea of how to fabricate a modern pluralist political sys-

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

tem together with a capitalist market economy from the scratch.

Given this lack of empirical as well as theoretical provisions, the series of system changes in Central and Eastern Europe provide a rare opportunity for the investigation in change processes that, until today, was restricted to single case studies not suitable for comparative analysis. However, whereas the reform process undergone by former Communist societies soon became one focus of attention within the social sciences, there is only little awareness about their suitability for comparative research of *thoroughgoing institutional change*. A lot of attention is paid to the introduction or change of single institutions as well as structural changes of industrial sectors, policy areas and distributional patterns. Surprisingly, the logic of system change, its management and conditions of success still appear to be beyond the research agenda.³

Setting aside the possibility that there are topics of research demanding greater amounts of attention and funding, one might come up with some sort of theoretical explanation for the political science's indifference toward the recent 'grand changes'. This explanation refers to some theoretical assumptions broadly held in political science and political sociology. 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. Mainstream social sciences and, above all, the theoretically based brands of political science entertain systematic skepticism about the possibility of what they name as 'holistic reforms'.

In order to highlight the possibility of enhancing systematic knowledge about the conditions of design-guided societal change—or: the dimensions of a concept of political possibility—this paper examines the discrepancy between theory-based but over-skeptical expectations, on the one hand, and indications of prudent policy choices that allowed for successful transformations in former Communist countries, on the other.⁴ In the next section, the reader is invited to cast a view on the 'impossibility theorem of holistic reform' as it became some sort of hidden paradigm of post-war political science. The subsequent section provides a closer look at peculiar problems associated with the departure from Communism that might even enhance what is assumed to be the problem load of 'ordinary' system change. As a matter of fairness, this is followed by a brief discussion of features that could well reduce the task load of Post-communist transformations. In the subsequent section (no. 4), we hint at certain circum-

² This, of course, does not apply to the transformation of East Germany that was generously sponsored by the Federal Republic of Germany.

³ See Ellman (1997) for a remarkable exception.

stances and actions that might well be regarded as ‘factors of success’. Finally, a very rough overview is given of some findings of transformation research that help to delineate the ‘possibility space’ of the historically unique set of wholesale institutional changes. From these, a cautious conclusion can be drawn about the possibility of large-scale institutional reforms in general.

2 The Theoretical Impossibility of Holistic Reform

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 29 countries⁵ having departed from Soviet-controlled Communism seems to be an attractive sample for comparative analyses. The aims of research might refer to the similarity or diversity of initial conditions, the policy 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 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, 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 once (Elster 1987).

However, what today on empirical grounds of reasoning is identified as instances of more or less successful large-scale change is at variance with some common knowledge in the aca-

⁴ Major parts of sections 2 and 3 draw on Wiesenthal (2002).

⁵ These are Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, East Germany, Estonia, Georgia, Hungary, Kazakhstan, the Kyrgyz Republic, Latvia, Lithuania, Macedonia, Moldova, Mongolia, Poland, Romania, Russia, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, and Yugoslavia (Serbia and Montenegro).

demic disciplines claiming responsibility for this subject. Up to 1990, peculiar assumptions associated with ‘state of the art’ political science explicitly denied the possibility of voluminous intentional reforms. 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. Skepticism about holistic reforms was fed by information about the enormous social costs—including the destruction of what today is named ‘social capital’—that the people in the Fascist and Communist countries had to bear during the attempts at establishing a thoroughly different social, political and economic order.

Disregarding for a moment the opposite sign attached to the outcomes achieved, the recent project of change seems to be of similar scale. On the one hand, it comes close to what an ‘avantgarde’ of Leninist reformers once attempted to achieve, on the other, it obviously outdoes all major changes experienced in 19th and 20th century Western Europe: from the collapse of monarchies and autocratic regimes, the introduction of state-organized social welfare or the warfare regimes of World War I and II up to the post-war reconstruction periods.

Part of the common understanding of Western political scientists before 1990—as far as there was an opinion about wholesale social reforms—was a couple of assumptions converging in an implicit ‘negative’ paradigm. This might be called ‘the impossibility theorem of holistic reforms’. Various empirical and theoretical findings had amounted to a body of knowledge that strongly impacted on theoretical reasoning as well as political theory. Its basic skepticism evolved at the crossroads of some different, however complementary results of the public policy analyses such as those done by Charles Lindblom, the studies on implementation failures in public service reforms, the highly original and seminal fruits of research in organizational decision-making and the psychology of boundedly rational choice inspired by Herbert A. Simon and its colleagues at the Carnegie Mellon Institute of Technology at Pittsburgh, the discussions about the assumed non-governability of democratic systems, and, last but not least, Fritz W. Scharpf’s investigation into the ‘Joint Decision Trap’ and the predominance of ‘negative’ over ‘positive coordination’.⁶ 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

⁶ See e.g. Lindblom (1959), Pressman/ Wildavsky (1979), Simon (1957, 1976), March/ Olsen (1976, 1989), Crozier et al. (1975), Scharpf (1988, 1993).

Karl Popper (1972) against the ‘historicist’ brand of sociological and politico-ideological reasoning, Herbert A. Simon’s notion of ‘bounded rationality’ and the writings of the social philosopher Niklas Luhmann (e.g. 1995) whose sociological system theory draws extensively on the empirical findings of the Carnegie Mellon School.

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’ (Lindblom 1959), ‘the garbage can’ model of decision-making (Cohen et al. 1972), the exclusive possibility of ‘piecemeal technologies’ (Popper 1972) or ‘the tragedy of the politicians’ dead hands’ (Luhmann 1989).

More importantly, 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. Another pillar consists of what is known about the obstacles to rational social choice on the level of organizations allegedly designed for the delivery of public goods. These include the vulnerability of collective action to the disturbing effects of free-riding as well as the logical impossibility of devising a mechanism for the aggregation of a consistent set of group preferences from the diverging preferences of the individuals making up the group.⁷ 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 the institutional order of the entire society. 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, strongly contradicts any understanding of the empirical value plurality and sociological constructivism. For the matter of clarity, the arguments and their early proponents are summarized in the table below (table 1).

⁷ Here, we refer to the work of both Mancur Olson jr. (Olson 1965) and Kenneth J. Arrow (1963).

Table 1: Major Assumptions Underlying the ‘Impossibility Theorem of Holistic Reform’

... from policy analysis and implementation research:

| | |
|---|---------------------------|
| Incrementalism & the ‘Science of Muddling Through’ | Lindblom 1959 |
| Implementation Failures | Pressman & Wildavsky 1979 |
| The Joint Decision Trap & the predominance of ‘negative’ over ‘positive coordination’ | Scharpf 1988 & 1993 |

... from studies of organizational behavior and decision-making under uncertainty:

| | |
|--|---------------------------|
| Bounded Rationality & the principle of ‘satisficing’, the (search) heuristics of problem-solving | Simon 1957, 1976 |
| The ‘Garbage Can Model of Organizational Choice’ | Cohen, March & Olsen 1972 |
| The ‘Logic of Appropriateness’ as a central feature of Neo-institutionalism | March & Olsen 1989 |

... from political theory and sociological system theory:

| | |
|--|-------------------------------------|
| ‘Piecemeal technology’ instead of holism and teleology | Popper 1972 |
| The limited governability of democracies (as assumed by the notion of ‘ungovernability’) | Crozier, Huntington & Watanuki 1975 |
| The autonomy and ‘self-reference’ of society’s subsystems & ‘the tragedy of the politicians’ dead hands’ | Luhmann 1989, 1995 |

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 is to be confronted with a problem load that will easily exceed anything similar in a well-established democratic decision-making environment. In accordance with this view, several hypotheses were developed that claim to circumscribe the peculiar risks of the politically guided departure from Communism.

3 Especial Obstacles to the Transition from Communism

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 certain ways 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 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 and it precedes by far the acquisition of the right to social security as established by institutions of social welfare (Marshall 1964). 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, starting with political liberation, the process of system change is subjected to certain risks and problems that seem extremely difficult to be dealt with successfully. Some of them deserve closer inspection.

The dilemma of simultaneity. In an influential paper entitled 'The necessity and impossibility of economic and political reforms' Jon Elster (1990) outlines 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' (Offe 1991) points to a problem that was even more fundamental than the early controversy between the adherents of either radical or gradualist reforms. The dilemma theorem maintains that an unavoidable blockade of the reform process results or that tremendous costs of transaction are incurred when crucial decisions over the allocation of property rights have to be made *after* the introduction of universal suffrage and responsive democratic governments. 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 will trigger strong popular sentiments against the course of reforms. Any parliamentary opposition that is eager to gain office will experience an incentive to present itself as the natural protagonist of anti-reformism, i.e. attempt to maximize its attractiveness to those segments of the electorate that are unwilling to accept the transitory costs of change. Thus, it is assumed that almost any attempt by a democratic government to engage in long-term projects of transformation, that deliver their fruits only after a certain period of time, is bound to fail. Therefore, the process of system change is severely endangered by the risk aversion and opportunism of self-interested politicians who rank their chances of re-election higher than the quality of policy choice.

The limits on society's capacity for 'institutional learning'. There is a reasonably solid assumption that the simultaneous implementation of numerous interdependent institutional rules might expect too much of a society's capacity to adopt new ways of behavior and social coordination. This does not mean that the capacity of individual or collective actors is restrained

by obsolete beliefs and traditions such as the often mentioned ‘socialist legacies’. Instead, the argument points to the sheer volume of altered facts, norms and social expectations that actors have to take into consideration when choosing their course of action. Evidence of a limited capacity to adapt to environmental change is provided by consolidated democracies. In many instances of reform, the latter appeared capable of adapting to only incremental portions of intended change (Charles Lindblom), i.e. ‘piecemeal technology’ (Karl Popper). 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 turned out to be too demanding. The reproach of ‘holism’ as effectively pursued in line with Karl Popper (1972) zeroes in on the same phenomenon: political intention overshooting the complex and opaque features of social reality. Moreover, there is hardly a project imaginable that would meet the demands of information quality and design complexity associated with thoroughgoing reforms. This is why arguments usually having been raised in favor of gradualism—as opposed to the notorious shock therapy—typically draw on the limited ‘learning’ capacity of existing societies (e.g. Brada 1993).

The inadequacy of institutions introduced by arbitrary decisions. Another objection to the possibility of large-scale reforms 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.⁸ 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!’. It has to be acknowledged that the discretionary weakness of new institutions resembles one problem inherent in the holistic approach to reform. The more things come under scrutiny and the more they are changed

⁸ Proponents of this argument are among others Offe (1996) and Ekiert (1991).

through a once-and-for-all strike, the more the procedure resembles an act of sheer arbitrariness. Or, to put it the other way around: The more changes ambitious proponents of reform wish to effect simultaneously, the less social acceptance and institutional validity they may count on.

The lack of cultural prerequisites. One of the objections raised frequently 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 cultural givens and the functional prerequisites of the institutions to be established. It is 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 opportunity to adopt (see e.g. Malle 1994). 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 (partly) 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 lament the deficit in public spirit, the prevalence of pre-modern feelings of community and a common lack of political culture (e.g. Ekiert 1991). Piotr Sztompka even claims that the emergence of a civic culture in Post-communist societies is badly endangered by a legacy of 'civilizational incompetence' (Sztompka 1993).

The functional deficits of imported institutions. An implicit assumption of almost all efforts made by the internal as well as the external participants of transformations is that unambiguous ends and means are given in form of Western models. However, on closer inspection, this assumption might turn out a heroic simplification. Shifting the focus of attention to the debates on public policy and institutional reform in Western democracies, one might recognize numerous doubts about the adequacy and performance of institutions that, without exception, were invented in the 19th century or during the first half of the 20th century. Given the need to accommodate rapidly the social impact of new technologies and integrated global markets, few of these early institutional achievements could claim to be the most efficient solutions to current problems.⁹ Two possible consequences have to be mentioned. First, because the Western institutional legacy is subject to intense debates, its implementation in a 'foreign' context might be hampered by the disputed character of certain key features. Sec-

⁹ This argument was raised in a lucid way by a colleague from Slovenia (see Pusic 1993).

ond, given that imported institutions are implemented with maximum precision, they will probably display the exact same shortcomings which, at least today, attract criticism in their original context. Alternatively, if imported institutions will be implemented in a modified form, the proof of their adequacy rests on the—invariably limited—functional knowledge of the reformers.

The unacceptable social costs of institutional innovation. Competitive representative democracy is prone to inconsistent decision-making and the risks such entails. Individual citizens, ruling parties and even an entire society may choose to embark on a difficult and demanding project of institutional reforms and, at the same time, claim they will be spared all the risks and costs the chosen policy would necessarily entail. In fact, only in the very beginning did 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 reforms plummeted. Only for a short period of time did the recently won ‘negative’ freedom of true democracy seem to be an adequate compensation for the ‘positive’ freedom of guaranteed incomes (irrespective of individual performance) lost over the course of the system change (Bauman 1994). Macroeconomic data suggest that the social costs of transition amount to a 25-50 per cent decline of the gross domestic product during the first years. Above all, the width and depth of this ‘valley of tears’ (Sachs 1991) depends on how political systems could cope with the popular demand for immediate gains. Since there is no natural or economic law determining a steep right-hand part of the U- or J-curve of GDP growth, the political management of the transition crisis appears to be decisive.

The counter-intuitive effects of simultaneously introduced institutions. Whereas the objection to holism refers in a very general way to the lack of calculability of grand designs, some facts of limited importance became visible that illustrate very clearly the inherent risks of large-scale reform. A good example is provided by a comparison between the newly established political parties and interest associations which emerged following the political turmoil. Even after a decade, all Post-communist countries show the same pattern: while political parties succeeded in establishing themselves as major actors in the political system, interest associations (be they trade unions or business and professional associations) have as yet failed to gain significant influence as pressure groups or providers of sectoral information and governance within the process of policy implementation.¹⁰ There is good reason why *parties* proved

¹⁰ This failure is all the more significant as Postsocialist political systems are constructed after the model of West European democracies with a particular ‘corporatist’ style of integrating extra-parliamentary ‘functional’ interests.

superior under conditions of increasing competition over individual and public resources for collective action (Wiesenthal 1996). They profit from a high level of public attention as well as from their function as gatekeepers to governmental and public positions. Because elections are constant-sum games, parliamentary representation as such remains immune from the organizational capacity of parties, the nature of political cleavages and even voter turn-out. With respect to interest associations, there is nothing resembling this comparative advantage of parties. Their development depends exclusively upon individual expertise and contributions for collective action. Furthermore, the well-known problem of free-riding sets either narrow limits to growth or triggers a departure from collective goals when the organization attempts to survive by means of selective incentives and/or the fabrication of community feelings. As a consequence, it is not possible for government and administration in new democracies to relieve themselves of the heavy burdens of actively regulating nearly everything by delegating responsibility to ‘private’ interest governments as did their West European counterparts (Streeck/ Schmitter 1985).

The major arguments stressing the peculiar risks of the transition from Communism are summarized in a table. The table’s right-hand rows show—tentatively—the level of social analysis to which the respective argument appears to refer (table 2).

Table 2: Predicted Problems of Transition with Their Respective Level of Causation

| Problems as predicted | Level of social analysis | | |
|--|--------------------------|------|-------|
| | micro | meso | macro |
| 1. The dilemma of simultaneity (i.e. the simultaneous introduction of democracy and a market economy). | | x | x |
| 2. The limits on society’s capacity for ‘institutional learning’ (because people and organizations need more time to adapt). | x | x | |
| 3. The reduced weight of institutions introduced by a series of discretionary choices. | x | | x |
| 4. The survival of ‘socialist’ values, i.e. the lack of cultural prerequisites for ‘democratic capitalism’. | x | | x |
| 5. The functional deficits of imported institutions (because of obsolete functions or their inadequacy for a globalized market environment). | | x | x |
| 6. The social costs of rapid institutional change (that might induce the victims of change to associate against further reforms). | x | x | |
| 7. The unequal attractiveness of opportunities for political participation (resulting in a lack of ‘functional’ interest representation). | | x | x |

4 Factors of Success

Although the list of obstacles to ambitious institutional change as outlined above is in no way conclusive, it may serve as an indication of the peculiar case-specific problems that add to the problem load which is assumed to account for the general impossibility of holistic reforms. Fortunately, after more than a decade of thoroughgoing changes, one no longer feels compelled to rely on general theories 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 Central and Eastern Europe after 1989.

Taken altogether, there seems to be little ground for maintaining the skeptical position as suggested by the impossibility theorem. 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 the preceding sections, 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 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 achieved¹¹ as well as the degree to which the economy has been restructured and regained growth.¹²

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 alleviating factors and the unconvincing premises of the impossibility theorem might tell us which elements of the theorem are to be dropped or in need of refinement.

On the one hand, some of the obstacles predicted to impinge on the Post-communist transformations were mitigated by factors that 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. Both 'Communist'-type feelings of social harmony and the, in fact, more egalitarian social structure, provided a rather unfriendly

¹¹ In 2000, only eight of the 13 European Postcommunist countries were assigned by Freedom House the exact same degree of political freedom as it is held by the consolidated democracies of Britain, France, Germany and Italy (<http://freedomhouse.org/research/freeworld/2000/table5.htm>). In the meanwhile, these undoubtedly democratized countries were granted candidate status by the European Union.

environment for old and new interest groups in the early days of transformation. While interest associations and trade unions were unable to act as powerful pressure groups, reform governments enjoyed considerable elbow room. This factor, further, contributed to a low level of strain in early government formation and parliamentary decision-making. Correspondingly, broad popular support for the 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.

Second, 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 while 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 a change in office—usually with the new government continuing on the path of their predecessors—the strongest opposition seems to have come from some winners of reform (Hellman 1998). Whereas the costs of transition were widely distributed, the benefits were 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).¹³ 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.

Third, even the obvious lack in the ‘moral’ prerequisites of the new institutions turned out to

¹² Cf. e.g. de Melo et al. (1997), Hellman (1998), and Havrylyshyn et al. (1998).

¹³ Csaba (1997) pointed out that neither the assumed trade off between inflation and unemployment appears to hold.

be less damaging than it was expected. Though many new social and 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 Western democracies.¹⁴ 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.¹⁵ 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.¹⁶ 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

¹⁴ 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).

¹⁵ For a catalogue of the measures prescribed by the proponents of an socio-economic shock therapy see Sachs (1989) and Fischer/Gelb (1991).

¹⁶ 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).

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 2000).

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 Martha de Melo, Cevdet Denizer and Alan 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 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 2000).

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. This is because of the absence of strong interest groups and constitutional veto-players at the outset. Thus, making use of the 'window of opportunity' allows political actors to commit themselves to the necessary irreversible changes and policy choices: 'It is during that period of 'extraordinary politics' that reforms can be decided and implemented most easily' (Wyplosz 2000: 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).

In general, the bundle of structural reforms¹⁷ had a positive impact on economic growth. Countries that had started structural reforms early also show the highest score in terms of the extent and speed of reforms. However, there is the exceptional case of the Baltics having started rather late, but caught up with the early reformers until the end of the 1990s. As was to be expected, countries with a higher degree of advanced structural reforms and, additionally, lower inflation enjoyed a higher level of growth. Whereas the liberalization of the internal and external sectors has already been completed in most of the countries (including the late reformers), there are considerable differences in the state of the privatization process.

The speed with which the private sector has grown looks quite impressive (Fischer/ Sahay 2000; Havrylyshyn 1998). Early debates focused primarily on the time and pace the privatization process should take while ignoring the issue of sequencing. As pointed out above, the speed with which single measures were implemented appeared to be of minor significance for economic performance than their proper sequencing (Beyer 2001). Contrary to assumptions rooted in the Washington Consensus, rapid privatization was less important for sustained economic growth than stimulating the development of new private enterprises (Ellman 1997). Well defined ownership rights, the enforcement of a new legal framework supporting private activity proved decisive for the development of a competitive and dynamic private sector (Markovic 1997; de Melo et al. 1996).

Favorable conditions for the new private enterprise sector would not be very effective without the imposition of hard budget constraints on state-owned firms forcing them to restructure (Hirschler 2002; World Bank 2002). Although a thorough change in corporate governance as well as the encouragement of private entrepreneurs are elementary for economic development, several governments acted rather reluctantly. In order to maintain a consensus with the 'early winners' they softened the substance of reforms and continued with less comprehensive measures that, eventually, led into a partial reform equilibrium trap (World Bank 2002). Much more difficult as well as effective was the alternative course of depriving the 'early winners' of their illegal privileges and taxing the rents that accrued from incomplete reforms (Hirschler 2002).

The choice of privatization methods strongly impacted on the restructuring of enterprises.

¹⁷ Structural reforms cover privatization, enterprise and financial sector reform, the liberalization of prices, the legal framework of markets (property rights, competition policy) and the liberalization of trade and exchange rate regimes. Even though stabilization policy should have preceded the structural reforms, the former's success turned out to be dependent on the extent of the subsequent liberalization (de Melo et al. 1996).

Whereas the insider-focused ways of large-scale privatization led to the delay of enterprise restructuring, the overall economic performance became dependent on both the progress made by small enterprises and the concentration of property rights in form of FDI and foreign-ownership. It is above all the new firms of the private sector that contribute to the increase of GDP by generating larger profits than the recently privatized former state-owned enterprises (Markovic 1997). The sooner the economy recovered and the structural reforms became completed, transition countries appeared to be more attractive to foreign direct investment (FDI).

In general, the volume of FDI had a positive impact on GDP growth, also because investors brought with them advanced technologies, ideas and management expertise. The distribution of FDI inflows across countries was comparatively uneven and depended on the state of reforms (Fischer/ Sahay 2000; Wyplosz 2000) as well as on the historical record before the transition. Accordingly, the countries in Central and Eastern Europe (including the Baltics) received a greater per capita share of FDI than the successors of the former Soviet Union.¹⁸ Looking out for an explanation of the comparative handicap of Post-Soviet countries, there are two alternatives: either disadvantageous initial conditions or geographical isolation.

Contrary to widespread expectations, the role of initial conditions was surprisingly weak.¹⁹ Though there might have been a limited effect of initial conditions on early output levels, it completely vanished after the economy became stabilized. Statistical tests show that unfavorable initial conditions do not seem to have affected the efficacy of policies (Berg et al. 1999; Havrylyshyn 1998). Thus, the comparative growth performance of ECE countries is attributed above all to the transformation policies chosen rather than to the initial conditions (de Melo et al. 1997). Although disadvantageous initial conditions might have discouraged reformers because of their impact on costs, the effectiveness of reforms actually being implemented was not reduced to a significant measure. And the more comprehensive the reforms have been, the lesser the costs turned out in the long run (Hellman 1998). Of course, intuition and responsiveness to the given circumstances—i.e. taking into account the cultural and historico-institutional aspects of the situation—remained key factors of prudent policy choices (Spak 1997).

¹⁸ There is also a group of rather successful countries—made up of Croatia, Slovenia and Slovakia—having been unable to attract a remarkable inflow of FDI.

¹⁹ The term ‘initial conditions’ refers to the inherited state of the economy, natural resources, and traditional institutions. Market experience and structural distortions make up for the two most critical variables (de Melo et al. 1997).

Geographical proximity to Western Europe, however, had a strong impact on the consistency of reforms. Above all, this comparative advantage presented itself in terms of the prospect of becoming a regular member of the European Union (EU). There is sufficient evidence that the most advanced reformers are also nearest to the EU. Neighborhood to Western Europe not only paid in terms of a formal candidate status granted after a couple of years but also in legal advice and financial aid that soon became available. In fact, by selectively granting external support, West European countries favored exactly those transition countries whose transformative performance appeared to qualify for EU membership (Ash 1999; Markovic 1997; Rose 1999). Looked upon from the opposite direction, the perspective of becoming, in the foreseeable future, a member of the EU triggered an increased willingness to adopt exogenous rules and institutions.

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.²⁰ 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 wished to prepare for a candidate status to the European Union.

Taken altogether, there is little ground for maintaining the suspicion that the incidents of change exhibit signs of a strong ‘path dependence’ (as suggested early by Stark 1992). Apart from the trivial meaning that there are very few phenomena that lack any mark of the past, path dependency in the strict sense occurred less frequently than originally expected. As far as the theory of path dependence provides an adequate background for assessing the outcomes of system change, we might reach at a preliminary conclusion: 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 were of astonishing quality) most parts of the envisaged wholesale societal change were successfully mastered. In a rather

²⁰ For a deeper investigation into the role of intentionalism in the emergence of party systems see Chan (2001).

remote—or: bird’s-eye—perspective the exact composition of the bundle of measures appears to mark the distinction between an impractical utopian and a more realistic sort of holistic policy patterns. Does this mean that the patterns of feasible holism are confined to those that seem ‘imitative’ as Michael Ellman put it?²¹ This is not necessarily so.

5 General Conclusions

Proponents of the impossibility theorem might argue, that the theorem extends only to well-established democratic societies and, therefore, is misinterpreted when employed to assess the changes that took place in Post-communist countries. Therefore, sorting out the facts that contradict the theoretical predictions as well as indicating the unexpected facilitating factors might be lead to a more differentiated and, at the same time, more encompassing theory relative to the feasibility of large-scale design-based reforms.

Assessing the peculiar way in which the aforementioned aspects of social change deviate from the assumptions that constitute the core of the impossibility theorem, we have to take a look at each of the three different levels of social analysis mentioned already in section 2: 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 seems 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 enduring determination. Another set of assumedly 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 simply absent or the techniques of boundedly rational decision-making were easily replaced by one-best maximizing strategies. To the contrary, all the obstacles to ‘substantive’ rationality proved real. However, there were also some tactics and strategies available 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.

²¹ According to Ellman (1997: 31), ‘(e)xperience has shown that imitative holistic social engineering is feasible and, for some people under some circumstances, desirable.’

On the *meso level* of organizational particularism and the intricacies of social choice we find a lot of empirical facts quite close to what theoretical skepticism did postulate. Although only few of the 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 peculiarities of the Communist system. The former harmonization of incomes and social status as well as the repression of bottom-up associations amount for the reduced impact of interest heterogeneity as well as organized interests as such. Given this divergence from the situation in established democracies, the presence of capable collective actors in the latter renders any simple generalization of this finding obsolete.

Relative to the *macro level* of system characteristics things turned out rather 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, because certain preconditions had to be met if the imported models were to work properly, term 'imitation' offers little explanatory power. Reformers in transiting societies not only had to identify a master model but also had to create alliances and delineate a proper course of interdependent single actions. In order to succeed, society had to provide sufficient individual freedom of action—including the right to associate and compete for political representation—as well as a level of popular tolerance allowing reformer to learn from errors. As a consequence, we have to admit that modern societies do well entail the chance of providing a sufficient level of knowledge about their essential elements and processes. The more specific conclusions to be drawn from this are listed in table 3 below.

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. Our 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.

Table 3: Basic Problems of Large-Scale Reforms – Revised

| <i>Level of Analysis</i> | <i>Reference Made to</i> | <i>Specific Problem</i> |
|--------------------------|----------------------------|--|
| Micro | individuals | <p><i>Proposition:</i> Individuals have only limited capacity to form rational beliefs and act according to the rules of substantive rationality.</p> <p><i>Empirical Finding:</i> There are tactics and strategies available for coping with limited ‘rational’ capacity.</p> |
| Meso | collectives, organizations | <p><i>Proposition:</i> The goals of action will be distorted by ‘the logic of collective action’ and inconsistent outcomes of ‘social choice’.</p> <p><i>Empirical Finding:</i> There might be ‘windows of opportunity’ allowing to circumvent this problem under suitable conditions.</p> |
| Macro | society, general systems | <p><i>Proposition:</i> It is impossible to construct an operable notion of (inclusive) system rationality.</p> <p><i>Empirical Finding:</i> Even ambitious reformers need not do so. Instead, they may copy institutions that appear to be ‘good enough’.</p> |

One group of surprisingly successful changes, some of them still beyond the attention of mainstream political science, consists of so-called developing countries which during the last decade succeeded to outdo with dictatorship and a centralized state-governed economy. In Asia, these are the well-known cases of South-Korea and Taiwan which both have already gone a long way towards becoming modern democracies with decentralized economies. There are some less spectacular examples in other parts of the world. Experts in Latin American regional analysis point at Bolivia and Uruguay as outstanding cases of democratization and economic reform. And even among the African countries most of which suffer heavily from colonial legacies and corrupt elites do we detect relatively successful cases of recent social change: e.g. Mali and Mauritius.²²

Another set of cases being worth to become investigated with the conceptual instruments of modern political analysis is made up by the early social reforms in European countries at the end of the 19th and the beginning of the 20th century.²³ Where mandatory social insurance schemes became introduced for the first time, they often met with fierce opposition from those who rightly saw in them what they turned out to be: path breaking institutional innova-

²² A comprehensive assessment of recent developmental success is prepared by the German Bertelsmann Foundation in connection with the 2001 Carl-Bertelsmann Prize. For further information see Weidenfeld (2001).

²³ For an overview of policy patterns that evolved in the course of early social reforms see Wiesenthal (2002).

tions that would later on deeply impinge on the social structure and the character of society.

Given the three sets of examples of successful thoroughgoing and design-based reforms, only one of which could be dealt with in this paper, there is good reason to refocus political analysts' attention. There is sufficient evidence that it pays to look for factors of intended success as well as of failure.

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