Vagaries and Uncertainties of Postsocialist Transition Revisited: 
A Theoretical Foray

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(Work-in-Progress, April 2016; not to be cited)

“Socialist bread may well taste sweeter to them [convinced socialists] than capitalist bread simply because it is socialist bread, and it would do so even if they found mice in it.”

--Joseph A. Schumpeter (1942), Capitalism, Socialism and Democracy, pp. 190-91.

“Imaginons aujourd’hui une franche, totale et définitive ouverture des économies de la Chine et de L’U.R.S.S.: il y aurait alors rupture des limites de l’espace occidental, tel qu’il existe actuellement.”


“The rate of change is often of no less importance than the direction of the change itself; but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which may well depend upon us.”

--Karl Polanyi (1944), The Great Transformation, pp. 36-7.

Introduction

When Joseph A. Schumpeter (1883-1950) penned the above statement in his acerbic style on the eve of the Second World War, he could not possibly have imagined that, someday, after many decades of experience and frustration with socialism in Soviet Russia and Eastern Europe, capitalist bread might well taste sweeter to them than socialist bread simply because it is capitalist bread, and it would do so even if they find mice in it. As for
Fernand Braudel, (1902-1985), who had a better grasp of the frontiers of the very long-term, the total opening of the Soviet Union and China to free trade nevertheless seems to fit better a mental exercise than a historical possibility. Much has been written on the postsocialist transition\(^1\) so much so as to give rise to a new subfield called ‘transitology’ with its own set of problems due to its myopic focus with no sense of large-scale, long-term comparison\(^2\). Practically, transition at that time amounted to some sort of a crash-landing onto no-one-knew-exactly-onto-what at the time. As such, it was a self-confident defiance of what the prudent Karl Polanyi (1886-1964) had once put in proverbial sharpness as also quoted above.\(^3\) All in all, everybody, be they academics, economists, politicians, or men on the street, seemed to have a better sense of where they were coming from than where they were heading to. Wide consensus existed that they were hence leaving behind ‘communism’ (as the Anglo-Americans pejoratively called it) or ‘socialism’ (as the French preferred), hence the rival name-tags of ‘post-communist’ and ‘postsocialist’ transition.\(^4\)

However, this was not so circa 1917 when the transition to socialism came about rather quickly and unexpectedly in the context of a Bolshevik Revolution in Russia caught amidst the European War. As the original ambitions of a world revolution were scaled down to building ‘Socialism in One Country’, leading cadres looked to the founding fathers of the doctrine such as, not only Karl Marx and Friedrich Engels, but also the German social democrats, in order to elaborate a road map of how to do it. Marx’s casual remarks in his various works along with his pamphlet on the Paris Commune and subsequent critique of the Gotha Program as well as the accommodations made in the following Erfurt program by Karl

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\(^1\) From ‘transition’ in this paper should be understood the case of Soviet Union and Eastern Europe excluding Yugoslavia. The very important case of China is deliberately left out because it deserves an entirely different evaluation in its own right. See (Arrighi, 2007). In contrast with Russia, it has been noted “China has fewer ethnic divisions and an unbroken peasant culture; it is at a disadvantage with Russia only in virtue of its not yet having thrown off the atavistic Westernizing ideology of Marxism-Leninism.” (Gray, 1993: 46). The successful Chinese model has often been recommended to, and contrasted with, Russia without fully taking into consideration the differences in the initial endowments of the two countries (Åslund, 2002: 93-95). Looking back from where we stand now, we see that China has been much more successful in economic development, albeit for reasons other than those noted during the 1990s.

\(^2\)This disciplinary myopia is well scrutinized in a critical essay that underlines the strong theoretical and conceptual affinities between the once transitions to market system in the West and the contemporary specialized discourse of transitology (Greskovits, 2002). This work comes closest to this study in terms of taking a broad view.

\(^3\) The importance of this point has been recognized: “According to this [mainstream] line of thought, it is inevitable that there will be casualties, as the socialist system was, on the one hand, too benign and, on the other, simply too corrupt and too inefficient for too long. Now belts must be tightened and some people, or some sectors of the population, must be discounted or even discarded. A more liberal approach to take would be that this is in fact too high a price to pay for rapid change; here the premise is that the pace of change cannot justify the social costs.” (Pine & Bridger, 1998: 12)

\(^4\) We use here ‘postsocialist’ because we think it is academically as well as politically more correct.
Kautsky offered little clue on practical way of progress. However, for Marx as well as his followers, property-rights and the relations of production thereof, including the concomitant nature of the labor-process, were of utmost importance in defining capitalism, and therefore, any transition from it had to show its effects on the changes in these parameters. Moreover, capitalism was equated with the market economy and hence the end of capitalism required the abolishment of the market. Where the Soviet cadres found little of direct relevance for economic policy design, they discovered a strong pillar for legitimizing their own policy preferences by recourse to the authority of first and foremost Marx but also the lesser Founding Fathers, into the Pantheon of which Lenin was admitted shortly, in a way not unlike the preferred methodology of medieval scholasticism. It is no surprise that one constant of economic policy design and performance assessment thus remained an inevitable reference to the Founding Fathers. As a consequence, the economic performance of socialism has continuously been measured in relation with the pronouncements of the Founding Fathers and in comparison with capitalism about which they had written much more. As the Founding Fathers had died before the Revolution, this spared them from any responsibility and criticism, and made the task of interpretation and association of the alleged followers all the more easy. The ultimate result of this prolonged process was the official blueprint, *Manuel d’ économie politique* (1954), which supplied the backbone of all Soviet-type economies that relied on top-down compulsory central planning combined with a single-party political regime.

In this paper, we turn not to the Founding Fathers, but to Schumpeter, Polanyi, and Braudel, two social scientists and a historian who maintained a strong dialogue with the social sciences, and who, not only witnessed the transition to socialism, but also shared a significantly favorable attitude toward Marx. These three names have played an important role.

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5 One ‘little’ but most serviceable clue was the transcendence of the anarchy of the market by the evolution from individual to corporate property that could be associated with the state socialism of the German tradition. This became an inspiration for Soviet state ownership as the substitute for private property in the name of the working-class.

6 Market, that is the ‘noisy sphere of exploitation’ not only obscured the ‘hideen abode of production’ in Marx’s parlance, but also it offered fertile ground for development of capitalism through fostering inequality as Lenin observed. In any case, the abolition of the markets would practically terminate the private property-rights on the means of production because these would become inalienable.

7 The other criterion for measurement being obviously the empirical realities of the economy (Chavance, 2000). As this benchmarking gained an increasingly critical touch, socialism has been relabeled as ‘real socialism’ or ‘actually existing socialism’ in order to differentiate it from this time ‘utopian’ socialism of Marx(ists). In this paper we will use ‘actually existing socialism’ and ‘real socialism’ interchangeably meaning the same thing that may in fact be better expressed by the term ‘pseudo-socialism’ (Amsden, Kochanowicz & Taylor, 1994: 1)
role in shaping contemporary conceptions of social sciences and history. It is no surprise that
the better examples of recent literature that seeks to address postsocialist transition have also
felt obliged to return to these authors (Chavance, Magnin, Motamed-Nejad and Sapir, 1999:
15, 16, 17; Chavance, 1999: 303, 307; Kornai, 1999: 326, 333n). Because each of the three
authors had a chance to observe the transition to socialism and framed their assessments by
taking their observations into account, they had a clear advantage over Marx who could only
carry out a mental exercise. As such, we believe, their representations of the socialist
transition are more down to earth and thereby offer us a better benchmark to assess the
performance(s) of socialism.

The analytical frameworks of both Schumpeter and Polanyi were significantly shaped
by their own readings of, and their reaction to, Marx’s works. Braudel, as a historian was also
in dialogue with Marx’s works and Marxists from his youth well into the end of the Cold
War. Even so, and to their as well as our advantage, none of them was as strongly, narrowly,
and exclusively committed to a property-rights framework of analysis that would by default
hint to a conception of socialism as the ‘socialization’ of private property-rights over the
means of production by virtue of state monopolization on behalf of society in general and the
proletariat in particular. In order to catch sight of what such an opening can provide us, as
well as to provide ‘transition’ with conceptual clarity, it is therefore high time to return to
three now-classic sources, namely, Capitalism, Socialism and Democracy (1942) by Joseph
Schumpeter, The Great Transformation (1944) by Karl Polanyi, and Civilization &
Capitalism (1979) by Fernand Braudel. We explore each of these sources with specific
reference to the idea of transition. Whereas Schumpeter works with the more conventional
view of a plausible transition between capitalism and a hypothetical socialism, Polanyi prefers
to elaborate an open-ended ‘great’ transformation away from the self-regulating market
system into either ‘real’ socialism, or fascism, or the New Deal. In contradistinction, Braudel
conceives a tripartite socio-economic system where capitalism coexists with the market
economy and material civilization, thereby putting forward a conceptual framework within
which capitalism is scaled down and thereby the 'transition' possibilities are facilitated
significantly.

Whereas we do not take the difference between the terms ‘postcommunist’ or
‘postsocialist’ as of great importance, we consider the difference between ‘transition’ and
‘transformation’ as of great relevance in terms of its far-reaching implications. The idea of
‘transition’ is well-established in the now-classic literature on the transition from feudalism to capitalism associated with progress along a linear path of stages. It was extrapolated symmetrically to the anticipated move from capitalism to socialism. There exists nothing comparable in literature on the ‘transformation’ of feudalism into capitalism. We take this as given. We depart in this paper from this norm occasionally only to see what new vistas can be opened by taking such steps. In sharp contrast, contemporary scholarship on the postsocialist shift uses both concepts without necessarily specifying the reasons for choice. Sometimes there is an implicit assumption and consistency thereof but at other times the two concepts are used interchangeably. For example, it is argued that because attempts to reform from within the socialist economies came to a dead end, what actually came about instead qualifies as ‘transformation’, rendering fully ‘the revolutionary nature’ of the change, hence the preference for the term ‘postcommunist transformation’ (Brus and Laski, 1999: 80, 82). Another expert scholar of economic planning speaks casually but consistently of ‘transition’ from ‘socialist planning’ to ‘capitalism’ and of transition in inverted commas for the general process (Ellman, 1999: 148, 150 and 151). Kornai (1999: 324, 337-38) refers to ‘transition’ in relation with the prolonged Hungarian experience, speaks of ‘types of transition’ in general and prefers to refer to the ‘Chinese transformation’. On the other hand, Chavance (1999: 301, 305) speaks of ‘post-socialist transformation’ or ‘ultimate transformation’ of socialism into capitalism. Magnin (1999: 349, 351, 366, 368) refers to ‘post-socialist transformation’ and ‘economies in transition’. We believe there is a certain usefulness in further exploration here for the sake of conceptual clarification. To this effect, we give great weight to this issue.

None of the above three authors could possibly envision a transition-in-reverse. As a matter of fact, hardly anyone could. In this respect, an equally good choice for an epigraph to lead this paper could have been, all the more so, if only he were as wide off the mark as the initial impression suggests:

By its sheer duration the Russian revolution seems to make impossible the repetition of anything like this classical historical cycle. It is inconceivable that Russia should ever call back the Romanovs, even if only to overthrow them for a second time. Nor can we imagine the Russian landed aristocracy coming back, as the French came under the Restoration, to claim the estates, or compensation for the

8 However he was not. A careful reading will render that his choice of evidential support for his argument still holds despite the transition-in-reverse that has taken place. This indicates that the transition-in-reverse was actually true in some respects and not so in others. Hence it was less than a full ‘transition-in-reverse’. The reader should bear in mind that we use the term ‘transition-in-reverse’ for the sake of convenience and with an allusion to the transition debates between various ‘isms’ as well as the popular perceptions propagated by the mass media, while being fully aware that it was not symmetric with the ‘transition’. This is a theme to which we will return at the end.
estates, of which they had been dispossessed. The Russian landlords and capitalists who went into exile after 1917 have died out; and surely by now their children and grandchildren must have parted with their ancestral possessions even in their dreams. The factories and mines their parents or grandfathers once owned are a tiny fraction of the Soviet industry that has since been founded and developed under public ownership. The revolution seems to have outlasted all possible agents of restoration. (Deutscher, 1967: 4-5)

Hence the three authors we turn to have virtually nothing to offer us directly on the theme of postsocialist transition. However, their original contributions on the theme of transition to socialism, when studied in a new light and in retrospect, have much to offer us for evaluating the effects of the nature of the former transition on the latter by introducing certain constraints as well as stimulating a kind of path dependence. Moreover, the comparison of the two transitions in question helps identify the symmetries or asymmetries involved. We have in mind a fundamental symmetry: Social theorists generally envisage, according to a good old formula, that rapid economic improvement would ultimately come into conflict with the resistance of the old political establishment, thereby necessitating a structural readjustment if not an outright revolutionary shift. In the specific case of the transition to socialism, the expectation was that rapid capitalist development would cultivate the seeds of its own destruction by leading into economic crises as well as breeding a revolutionary proletariat that would give the then paralyzed political regime a deadly blow. Similarly, there existed the idea that market reforms under the socialist regime would gradually transform its infrastructure and leave its defunct state in a void. During the transition to socialism, the states had been brought into disarray by world war contexts whereas their economic basis remained far from prepared for socialism. In a parallel vein, during the transition from socialism, once again, the states had become dysfunctional and collapsed under their own weight at a time when the market economy was yet far from being in sight. In both instances, therefore, contrary to original expectations and predictions, political transitions preceded economic transitions. There exists, however, also a basic asymmetry between the two transitions. Whereas the transitions to socialism were at the level of particular states—be they national or imperial—

9 Even so, attention has been turned to the work of one (Polanyi)—at the expense of the other two (Schumpeter and Braudel)—because scholars have been quick in drawing a parallel between his case study and the recent transition in Soviet Russia and Eastern Europe (Amsden, Kochanowicz & Taylor, 1994; Bryant & Mokrzycki, 1994; Glassman, 1994; Almadovar & Brandão, 2001; Hake & Neale, 2001; Özveren, 2001). One can guess why interest has concentrated on Polanyi. His focus on the creation of a market society and the seeds of social reaction it cultivates provides material for easy comparison with “this current transformation” (Almadovar & Brandão, 2001: 43). On the other hand, Schumpeter’s insistence that, in principle, socialism would work, has served to discredit him unfairly when it did not work. As for Braudel, his historical work is obviously much less directly involved with socialism.

10 The US foreign policy of engagement with the apartheid regime in South Africa instead of international isolation was justified on the same grounds as disinvestment, it was argued, would leave USA with no leverage.
the recent transition from socialism has been compounded with a supra-state level of regional and global interaction. We believe, the original discussions of the transition to ‘socialism’ by these authors are diverse yet complementary; and as such, by implication, have much to offer for the proper understanding of the postsocialist transition-in-reverse.

The Limits and Prospects of Polanyi’s Unconventional ‘Transition-as-Transformation’

Karl Polanyi’s *The Great Transformation* (1944) has an unusual layout. It proceeds more like a movie than a standard social science narrative insofar as it starts off from the then present, that is the interwar period, then makes a flashback to ‘The Rise and Fall of the Market Economy’ in (paraphrasing Braudel) the ‘long nineteenth century’, only to return at the end, to the interwar period, in order to explore the Great Transformation that he thought was already well under way.\footnote{He was simply being an optimist and time has proven him wrong in this foresight. Nevertheless his titular ‘Great Transformation’ has inspired the consistent classification of ‘transition’ under the broader category of ‘great transformation’ in a recent work on postsocialist shift (Chavance, 1994).} We will focus here more on the first and the third parts of the book, ‘The International System’ and the ‘Transformation in Progress’ because they are of greater relevance for Polanyi’s conception of transition in Polanyi.

For Polanyi, the nineteenth-century civilization was an economic civilization. This was its “extreme singularity. . . [and it] was unique precisely in that it centered on a definite institutional mechanism. (Polanyi, 1944: 4; emphases added). Whereas all civilizations are constrained by the material possibilities of economic life, the nineteenth-century civilization as an exception is traceable to the self-regulating market system, the *modus operandi* of which is the profit motive (Polanyi, 1944: 30). This exceptionalism had a further corollary. The economy was what is nowadays conveniently labelled as ‘disembedded’ from society: “Instead of economy being embedded in social relations, social relations are embedded in the economic system” (Polanyi, 1944: 57). What Polanyi therefore had in mind was not so much a ‘disembeddedness’ but an embeddedness in reverse. Be that as it may, according to Polanyi, under normal circumstances, “[e]conomic systems, as a rule, are embedded in social relations,” man’s “social existence is embodied” in institutions, and “man’s economy, as a rule is submerged in his social relationships”; or “the economic system was absorbed in the social system”, and the fundamental principles of integration such as redistribution help

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“enmesh the economic system proper in social relationships,” so that “[t]he economic system is, in effect, a mere function of social organization” or “the economic order is merely a function of the social, in which it is contained.” (Polanyi, 1944: 46, 49, 52, 68, 71, 157, 272; emphases added). Though Polanyi was indifferent among terminology, the basic idea was of utmost importance to him. With the defiance of this rule by the nineteenth century civilization, the economy was brought to the orbit of the market and hence followed the emergence of what Polanyi called the ‘market economy’. This implied “no less than the running of society as an adjunct to the market” because “a market economy can function only in a market society” and in effect, “human society had become an accessory of the economic system.” (Polanyi, 1944: 57, 75). In fact, society was being reconstituted as an arithmetic sum of isolated atomistic individuals. Polanyi called this a ‘market society’, but when defined this way the term itself becomes an oxymoron. Where the term no longer makes sense, the exceptional reality it refers to becomes contentious. Not surprisingly, Polanyi insisted that the nineteenth-century civilization was a parenthesis, “a distinct stage”, “an episode”, “a singular departure” in history (Polanyi, 1944: 5, 45, 71).

This parenthesis was bound to be closed sooner or later because of its internal dynamics\(^\text{12}\), and the course of human history was to return from the exception to the rule. The rule would require a re-embedding of economy in society. In the 1930s, Polanyi observed:

> Within the nations we are witnessing a development under which the economic system ceases to lay down the law to society and the primacy of society over the system is secured. (Polanyi, 1944: 251)

To qualify the process at work as ‘transformation’, what was to come next had to part ways with being an economic civilization. As Polanyi put it: “After a century of blind [economic] ‘improvement’ man [was] restoring his ‘habitation’.”(Polanyi, 1944: 249) The two expected attributes of the post-Great Transformation epoch are thus to be (1) a re-embedded economy and a (2) less ‘economic’ civilization. The following question immediately comes to our mind: Can there be such a transformation in a single country (Soviet Russia) or in a group of countries (Eastern Bloc) that attains these two objectives in a world where the rest are still committed to the opposite path, that is, where the worldwide dominant trends remain the

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\(^{12}\)“Nineteenth century civilization was not destroyed by the external or internal attack of barbarians; its vitality was not sapped by the devastation of World War I nor by the revolt of a socialist proletariat or a fascist lower middle class. Its failure was not the outcome of some alleged laws of economics such as the falling rate of profit or of underconsumption or overproduction. [. . .] the conflict between the market and the elementary requirements of an organized social life provided the century with its dynamics and produced the typical strains and stresses which ultimately destroyed that society. External wars merely hastened its destruction.” (Polanyi, 1944: 249; emphases added)
disembeddedness of the economy and prevalence of an economic civilization? This is inextricably linked with the good old debate concerning ‘Socialism in One Country’ (Sartre, 1976; Skocpol, 1979: 223-25) versus the ‘World Revolution’ (Deutscher, 1967:19). Polanyi was well aware of this connection:

It is not usually realized that the Bolsheviks though ardent socialists themselves, stubbornly refused to “establish socialism in Russia” Their Marxist convictions alone would have precluded such an attempt in a backward agrarian country. But apart from the entirely exceptional episode of so-called “War Communism” in 1920, the leaders adhered to the position that the world revolution must start in industrialized Western Europe. Socialism in one country would have appeared to them a contradiction in terms, and when it became reality, the Old Bolsheviks rejected it almost to a man. Yet it was precisely this departure which proved an amazing success. (Polanyi, 1944: 247; emphasis added)

This ‘success’ could nevertheless not possibly have happened under normal circumstances:

Socialism in one country was brought about by the incapacity of market economy to provide a link between all countries; what appeared as Russian autarchy was merely the passing of capitalist internationalism. (Polanyi, 1944: 248)

The ‘transformation’ to socialism that Polanyi envisaged was part of a broader picture where the world as a whole was expected to move away from the integrating principle of a self-regulating market system. Polanyi saw the shift to socialism in this broader picture as accompanied by parallel moves that he identified as fascism13 (Italy and Nazi Germany) and the New Deal (USA). If any of these simultaneous transformations was to falter or fail, in other words, fall short of realizing the above mentioned two objectives, this would impose a heavy constraint on, and place insurmountable obstacles on the way to, socialism.

In retrospect, we know that fascism was defeated militarily, and the countries embarked on this path were forced to join the First World after the Second World War. In the postwar order, the First World adopted a ‘mixed economy’ model combined with the welfare state. This model, with a small adjustment that replaced the welfare state with a developmental state, was also exported to the more aggregable members of the Third World. As such, the new world order fell short of the expectations of John Maynard Keynes as well as Willy Brandt, not to mention Polanyi’s twin objectives of achieving a full re-embeddedness and parting ways with the economic bias of the civilization in question. The implications of this aborted transformation for the prospects of socialism in the reconstituted Soviet Empire should not be difficult to discern. In addition to a security paranoia, it was forced onto

13 The reader should be cautioned that Polanyi did not hold a favorable view of fascism: “[f]ascism like socialism, was rooted in a market society that refused to function” (Polanyi, 1944: 239) and meant “a reform of market economy achieved at the price of the extirpation of all democratic institutions, both in the industrial and in the political realm.” (Polanyi, 1944: 237)
constant comparative economic performance with capitalism (the fortunes of which improved considerably during its so called Golden Age), hence condemning it to an economistic bias.\textsuperscript{14}

For Polanyi, the shift in question was thus structurally crippled by the ‘external’ factors. The actual shift was bound to remain less than, and qualitatively different from, the anticipated transformation in the first place. In other words, transformation was downgraded to transition by circumstantial necessities. Where the supposedly great ‘transformation’ thus became a farce, a lesser ‘transition’ to ‘socialism’ became a historic fact. For the qualitative distinction between ‘transformation’ and ‘transition’ that Polanyi had in mind, we need only to turn to his own word. In characterizing the birth of the market economy in the wake of the Industrial Revolution, Polanyi had also identified a ‘transformation’ albeit not of the ‘greater’ kind that appeared in the title of his book:

\begin{quote}
The transformation to this system from the earlier economy is so complete that it resembles more the metamorphosis of the caterpillar than any alteration that can be expressed in terms of continuous growth and development. \textit{(Polanyi, 1944: 42; emphases added)}
\end{quote}

It would be hence be appropriate to link ‘continuous growth and development’ with the concept of ‘transition’, which should mean a movement from one state to the next that is not associated with a qualitative leap or structural change. There is one context where Polanyi uses both concepts to make the distinction we have in mind clear:

\begin{quote}
And just as the transition to a democratic system and representative politics involved a complete reversal of the trend of the age, the change from regulated to self-regulating markets at the end of the eighteenth century represented a complete transformation in the structure of society. \textit{(Polanyi, 1944: 71; emphases added)}
\end{quote}

A further evidence for differentiation among the concepts of ‘transformation’ and ‘transition’ can be found in Polanyi’s characterization of the Speenhamland interval \textit{en route} to the market economy proper. During this period, two distinct systems with mutually exclusive logic were superimposed so as to create a seeming market economy where the path to the formation of a labor market was actually blocked by “paternalistic regulationism” (Polanyi, 1944: 125). In relation with this era, Polanyi speaks of “paradoxical tendencies prevailing during a sharply defined period of transition” (Polanyi, 1944: 104). There exists a strong parallel between Polanyi’s characterization of this transitional phase and the quest for reforms in favor of ‘market socialism’ manifested in Eastern Europe that also sought to set up a

\textsuperscript{14} All the worse that this race which socialism lost (Asselain, 1999) came at a time when it was a relatively weak and isolated partner in world economic relations constantly operating under the threat of trade sanctions or embargoes at a time when it was overburdened with additional responsibilities for its newly acquired allies.
market-oriented system that nevertheless precluded the formation of a labor market. As such, the first wishful transition from ‘actually existing socialism’ came to a dead end, because neither the two could be complementary nor the one could be abandoned.  

The downgrading from ‘transformation’ to ‘transition’ bore the mark of the world context of the day. It was within its confines that the rival paths expected to lead to the Great Transformation unfolded. When Polanyi insisted that “World War I and the postwar revolutions still formed part of the nineteenth century” (Polanyi, 1944: 20) he had above all the October Revolution in mind:

Russia, in this respect, formed no exception. The tendency of the times was simply to establish (or re-establish) the system commonly associated with the ideals of the English, American, and the French revolutions. Not only Hindenburg and Wilson, but also Lenin and Trotsky were, in the broad sense, in the line of Western tradition. (Polanyi, 1944: 23; emphases added)  

Where there was one Revolution, Polanyi saw two. This was because of the decisive role he attributed to the international context of the time. The breaking-point between the ‘conservative’, that is, policy-wise backward-looking 1920s, and the ‘revolutionary’, that is, forward-looking 1930s was of tantamount importance:

For the first Russian revolution [1917-24] achieved the destruction of absolutism, feudal land tenure, and racial oppression—a true heir to the ideals of 1789; the second Revolution [1930s] established a socialist economy. When all is said, the first was merely a Russian event—it fulfilled a long process of Western development on Russian soil—while the second formed part of a simultaneous universal transformation. (Polanyi, 1944: 247)

Polanyi was well aware of the limits and worldwide implications of the Russian example:

[A]socialist economy was established in Russia, representing an altogether new departure. Though the conditions under which this venture took place made it inapplicable to Western countries, the very existence of Soviet Russia proved an incisive influence. True, she had turned to socialism in the absence of industries, a literate population, and democratic traditions—all three of which, according to Western ideas, were preconditions of socialism. These differences made her methods and solutions inapplicable elsewhere. . . . (Polanyi, 1944: 234; emphases added)

A further parallelism has been drawn with explicit reference to Polanyi: “The anti-combination laws of 1799-1800 made worker association a criminal offence. The Bolshevik welfare system was similarly based on the denial of independent trade unions. The abolition of Speenhamland was welcomed as an act of freedom just as the Solidarity movement has embraced market utopianism as a means of achieving liberation from communism.” (Glasman, 1994: 199)

This was also traceable to the shared convictions of otherwise disparate statesmen vis-à-vis the basic institutions of the system in question. Concerning the blind faith in the Gold Standard, Polanyi observed: “The Russian Bolshevik Sokolnikoff was the first postwar statesman to restore the value of his country’s currency in terms of gold; . . . It would be hard to find any divergence between utterances of Hoover and Lenin, Churchill and Mussolini, on this point.” (Polanyi, 1944: 25)

Deutcher speaks of the ‘dual character’ of the revolution comprising a merger of bourgeois and proletarian revolutions. He sees the two elements as present from beginning to end but nevertheless acknowledges that their relative importance shifted over the time in favor of the latter (Deutscher, 1967: 21-8).
It was during the 1930s that with its Five-Year Plans, “socialism became a reality in Russia” (Polanyi, 1944: 23, 246). Yet, “Russia turned to socialism under dictatorial forms.” (Polanyi, 1944: 244) In a world where liberal principles were on the retreat, the radical departure coincident with the Great Depression was as much away from the self-regulating market economy as it was from the liberal state. It was as much political as it was economic.\(^\text{18}\)

In the above discussion, we saw that Polanyi used the label ‘socialist’ for the Soviet economic system without raising a fundamental question about whether it was actually socialist. This was not because he did not care. The explanation for this omission is to be found in Polanyi’s equally nonpolemical style with the term ‘capitalist[ic]’, to which as a qualifier or adjective he did not attribute a significant role in his analytical scheme either. This leads us to the more important question of how Polanyi saw socialism irrespectively of the Soviet system as a natural consequence of his own analytical construct, that is, as the logical aftermath through ‘transformation’ of the self-regulating market economy. Only this investigation can provide us with a true benchmark against which the record of Soviet transition can be measured. According to Polanyi, in the course of this abrupt transformation away from the market system witnessed in the 1930s, what was needed was “methods of reconstruction which transcended market economy.” (Polanyi, 1944: 168; emphasis added).

Polanyi has at the back of his mind the lessons he drew as an eyewitness to the communal socialist undertaking of the municipality of Vienna after the First World War:

> . . . the experiment of Vienna trying to transcend such an economy altogether, [ . . .]
> 1918 initiated an equally unexampled moral and intellectual rise in the condition of a highly developed industrial working class which, protected by the Vienna system, withstood the degrading effects of grave economic dislocation and achieved a level never surpassed by the masses of people in any industrial society. (Polanyi, 1944: 287-88; emphasis added)

Polanyi’s own definition of socialism is highly original and informative in this respect. It also gives us direct evidence as to what role Polanyi envisaged for markets to play in his socialist blueprint:

> Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society. It is the solution natural to the industrial workers who see no reason why production should not be regulated directly and why markets should be more than a

\(^{18}\)“The liberal state was in many countries replaced by totalitarian dictatorships, and the central institution of the [nineteenth] century—production based on free markets—was superseded by new forms of economy.” (Polanyi, 1944: 28)
useful but subordinate trait in a free society. (Polanyi, 1944: 234, emphases added)¹⁹

Polanyi was very keen²⁰ about the survival of markets in the socialist order as important institutions albeit in an entirely different overall role and status. Hence, transcendence in this context means not superseding the market per se. This may at first sight seem to suggest the likelihood of a smooth transition. Nothing could be further from the truth, for the following three reasons. First, there is the role of the institution of private property from the viewpoint of the market process and the potential consequences thereof:

[Socialism is] a radical departure from the immediate past, in so far as it breaks with the attempt to make private property gains the general incentive to productive activities, and does not acknowledge the right of private individuals to dispose of the main instruments of production. This is ultimately why the reform of capitalist economy by socialist parties is difficult even when they are determined not to interfere with the property system. For the mere possibility that they might decide to do so undermines that type of confidence which in liberal economy is vital, namely, absolute confidence in the continuity of the titles to property. (Polanyi, 1944: 234; emphases added)²¹

Secondly, he despised the dependence of labor for its livelihood on the market. He saw “disestablishment of the commodity fiction” (Polanyi, 1944: 252), as a sine qua non of socialism, especially as far as the fictitious commodity treatment of labor was concerned: “To take labor out of the market means a transformation as radical as was the establishment of a competitive labor market.” (Polanyi, 1944: 251; emphasis added) The third reason is to do with the way in which economic systems are organized. For Polanyi, what needed to be changed was the placement of the market within the overall economic hierarchy. Polanyi saw all economies as an integrated combination of market exchange, reciprocity and redistribution. A shift from one combination to another means a radical reordering of the three elements, implying a major shift from one dominant systemic logic, to another one at odds with it. In other words, the institutional framework characteristic of the self-regulating

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¹⁹ “Also, the end of market society means in no way the absence of markets. These continue, in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence producers’ income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of economic self-regulation.” (Polanyi, 1944: 252; emphases added)

²⁰ He returned to this point repeatedly at a time when price regulation had become the rule rather than exception because of the wartime contingencies: “That for an infinite variety of products competitive markets continue to function need not interfere with the constitution of society” (Polanyi, 1944: 252)

²¹ “Actually, in Germany as in Italy, the story of the immediate postwar period proved that Bolshevism had not the slightest chance of success. But it also showed conclusively that in an emergency the working class, its trade unions and parties, might disregard the rules of the market which established freedom of contract and the sanctity of private property as absolutes—a possibility which must have the most deleterious effects on society, discouraging investments, preventing the accumulation of capital, keeping wages on a remunerative level, endangering the currency, undermining foreign credit, weakening confidence and paralyzing enterprise.” (Polanyi, 1944: 190; emphasis added)
market economy is not as flexible as to accommodate any change. The combined effect of these three reasons is that the overall shift in question was bound to come with a rupture and amount to a transformation. In contradistinction from this blueprint of Polanyi’s socialist transformation, the Soviet experience remains as a transition.

Although the phenomenon in question thus qualifies more for transition than for transformation, in terms of one major consequence, it measured up to a true transformation. What we have in mind here is the social effect of the transition on the class structure of societies. In his discussion of the limits of class approach to social change, Polanyi gives us an important hint:

All this should warn us against relying too much on the economic interests of given classes in the explanation of history. Such an approach would tacitly imply the givenness of those classes in a sense in which this is possible only in an indestructible society. It leaves outside its range those critical phases of history, when a civilization has broken down or is passing through a transformation, when as a rule new classes are formed, sometimes within the briefest space of time, out of the ruins of older classes, or even out of extraneous elements like foreign adventurers or outcasts. Frequently, at a historical juncture new classes have been called into being simply by virtue of the demands of the hour. (Polanyi, 1944: 155-6; emphases added)

It is no coincidence that the class structure of countries that experienced the transition to socialism were as radically altered as would befit a proper transformation. Moreover, the same consequence has been observed, if not more so, after the transition-in-reverse. It is paradoxical that, a phenomenon of the limited depth and scope of a transition should give rise to such disproportionate a social or class effect.

This connects us conveniently to the ‘social costs’ of transition theme. Any discontinuous change in human history enhances the uncertainties involved in social life and gives rise to unanticipated “social costs” that can only be evaluated in retrospect. Same applies to ambitious economic undertakings such as five-year plans and rapid industrialization and collectivization. We should bear in mind that for Polanyi social costs far outweighed any other cost, and human life and dignity was the utmost measure of everything. At a time when the Second World War obliged the USA and Britain into an alliance with the Soviet Union

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22 If it were, this would imply that it was irrelevant for the working of the system, whereas Polanyi argued that the nineteenth-century civilization was based on a particular institutional matrix and that it was noted for its rigidity.

23 This is one of the very few concepts that Polanyi used in inverted commas in his text. He used it only once in the entire text (Polanyi, 1944: 94) but it summarizes the very central idea of The Great Transformation; namely the incommensurate social costs of economic change by way of a self-regulating market system.
overlooking the human rights record of Stalin’s regime, Polanyi was one of the very few intellectuals to concentrate on human rights and liberties in the closing chapter of his book. Whereas he developed almost the entire book as a polemic against the methodological individualism and liberalism of Austrian economists, in the very last chapter he switched his position to defend personal rights and liberties against the dangers he saw as inherent in a highly-centralized socialist ‘complex society’:

The institutional separation of politics and economics, which proved a deadly danger to the substance of society, almost automatically produced freedom at the cost of justice and security. Civic liberties, private enterprise and wage-system fused into a pattern of life which favored moral freedom and independence of mind. Here again, juridical and actual freedoms merged into a common fund, the elements of which cannot be neatly separated. Some were the corollary of evils like unemployment and speculator’s profits; some belonged to the most precious traditions of Renaissance and Reformation. We must try to maintain by all means in our power these high values inherited from the market-economy which collapsed. This, assuredly, is a great task. Neither freedom nor peace could be institutionalized under that economy, since its purpose was to create profits and welfare, not peace and freedom. We will have consciously to strive for them in the future if we are to possess them at all; they must become chosen aims of the societies towards which we are moving. (Polanyi, 1944: 255; emphases added)

More important, Polanyi was well aware of the need for the protection of the freedom of thought and expression and the ultimate right to dissent as social minima, and forewarned us long before the totalitarian record of Stalinism became commonplace knowledge:

In an established society, the right to nonconformity must be institutionally protected. The individual must be free to follow his conscience without fear of the powers that happen to be entrusted with administrative tasks in some of the fields of social life. Science and the arts should always be under the guardianship of the republic of letters. Compulsion should never be absolute; the “objector” should be offered a niche to which he can retire, the choice of a “second-best” that leaves him a life to live. Thus will be secured the right to nonconformity as the hallmark of a free society. (Polanyi, 1944: 255; emphases added)

However, Polanyi went a step further in trying to institutionalize this principle:

No mere declaration of rights can suffice: institutions are required to make the rights effective. Habeas corpus need not be the last constitutional device by which personal freedom was anchored in law. Rights of the citizen hitherto unacknowledged must be added to the Bill of Rights. They must be made to prevail against all authorities, whether, State, municipal or professional. (Polanyi, 1944: 256)

In retrospect, the issue of rights and liberties versus the duties has been the weak link in the record of socialism inflicting great social and human costs. When social change fell short of transformation and remained a transition, while at the same time radically altering the class

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24 The nonconventional German Marxist Rosa Luxemburg is noted for having said “Die Freheit ist immer die Freheit des Andersdenkenden.” (Freedom is always the freedom of thinking otherwise.) Polanyi almost echoed her words in his above statement.
character of a society as if it had undergone a full transformation, this kind of cost is all the more compounded. For Polanyi the critical factor that distinguished socialism from fascism concerned the issue of freedom.\textsuperscript{25} The worst that could happen to socialism is to degenerate in this respect and converge with fascism:

\textit{The discarding of the market utopia brings us face to face with the reality of society. It is the dividing line between liberalism on the one hand, fascism and socialism on the other.} The difference between these two is not primarily economic. . . Even where they profess identical economics, they are not only different but are, indeed, embodiments of opposite principles. And the ultimate on which they separate is again freedom. By fascists and socialists alike the reality of society is accepted with the finality with which the knowledge of death has molded human consciousness. Power and compulsion are a part of that reality; an ideal that would ban them from society must be invalid. The issue on which they divide is whether in the light of this knowledge the idea of freedom can be upheld or not; is freedom an empty word, a temptation, designed to ruin man and his works, or can man reassert his freedom in the face of that knowledge and strive for its fulfillment in society without lapsing into moral illusionism? (Polanyi, 1944: 258A; emphases added)

\textbf{Schumpeter’s More Conventional ‘Transition’ and Unconventional Balance-Sheet}

Schumpeter was an Austrian economist who entertained a certain theoretical affinity with Marx and shocked many other mainstream economists by his dissentions from certain commonplace views. For example, he sang praises for capitalism and yet prophesized that it could not survive in the long run. In sharp contrast to his Austrian counterparts like von Mises and Hayek, he argued that not only a socialist economic system was viable, but also it was likely. More importantly, it would be sustainable and survive. The socialism he considered was expressed in his ‘blueprint’ that bore the mark of Oskar Lange’s model. Following Lange, Schumpeter designed a centrally-planned economic model that simulated the market system by recourse to shadow prices that could be discovered. It is once again paradoxical that Schumpeter, whose theory of capitalist economic process took off from where Léon Walras has left, by rejecting a general equilibrium system based on perfect competition as the correct representation of the capitalism, turned to the same Walrasian model in order to theorize a socialist economy. He incorporated into his model the very mechanisms that Walras had assumed and insisted that the market system could be successfully reproduced by way of simulation under a socialist heading. In short,

\textsuperscript{25}Otherwise, there was a strong practical likeness between fascist and socialist economic policy during the war. A command economy, regimentation of essential resources, economic rationing and emergency planning, and the emphasis put on larger units of rational industrial production in Nazi Germany offer support for this argument (Neumann, 1944: 221-361). Socialist central planning imposed upon Eastern Europe from above relied heavily on the infrastructure and know-how inherited from fascism.
Schumpeter’s socialist economic system was Walrasian general equilibrium come true. Fully aware and thereby taking note of the limitations inherent in comparing two otherwise incomparable entities (former being a historical reality for quite some time, and the latter a blueprint controversially associated with a reality only in the making) Schumpeter compared capitalism and socialism as befitting the strong convention of comparative economic systems tradition (Chavance, Magnin, Motamed-Nejad and Sapir, 1999), yet concluded that socialism had certain superiorities over capitalism on the balance-sheet; an inference that was indeed shocking to hear from him as an admiring theorist of the capitalist process.

Nevertheless, Schumpeter took for granted the terminology of ‘transition’ and saw ‘transition’ as taking place from capitalism to socialism in the more conventional sense. His conception of the ‘transition’ adhered more closely to the Marxist studies of the question by recourse to rival and successive modes of production. Marx’s thought exerted a strong influence on Schumpeter; Schumpeter approached Marx critically and saw his own analysis as rectifying Marx’s scheme. Schumpeter noted that Marx singled out the inevitability of socialism “irrespective of human volition or of desirability” (Schumpeter, 1950: 56) as the major difference between his own scientific socialism and the utopian socialism of his predecessors and rivals. This implied the conviction that, by its very dynamics, capitalism would undermine itself from within and lead to its replacement by socialism. Schumpeter shared the very same view. He emphasized that the difference between Marx and himself was that whereas Marx counted exclusively on economic factors as responsible for the dynamics, Schumpeter introduced the effect of economic factors on undermining the noneconomic framework of capitalism:

> The thesis I shall endeavor to establish is that the actual and prospective performance of the capitalist system is such as to negative the idea of its breaking down under the weight of economic failure, but that its very success undermines the social institutions which protect it, and “inevitably” creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent. (Schumpeter, 1950: 61; emphases added)

In one of his rare moments as he was encouraged by all the uncertainties the Second World War caused, Schumpeter indulged himself on speculating about the certainty of transition as well as its likely paths:

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26 Chapter XIX of his *Capitalism, Socialism and Democracy* has ‘Transition’ as title. He spoke of ‘transitional problems’ and ‘transitional difficulties’ and of ‘transitional policy’ to cope with them; he said “the transition from the capitalist to the socialist order”, and he defined the context within which he wrote his book as “the transitional age in which we live” (Schumpeter, 1950: 167, 218, 221, 226, 227, 369).
[W]e know nothing as yet about the precise way by which socialism may be expected to come except that there must be a great many possibilities ranging from a gradual bureaucratization to the most picturesque revolution. Strictly speaking we do not even know whether socialism will actually come to stay. . . Before humanity chokes (or basks) in the dungeon (or paradise) of socialism it may well burn up in the horrors (or glories) of imperialist wars. (Schumpeter, 1950: 162-3; emphases added)

Schumpeter saw no historical alternative to socialism that would fall short of the destruction of human civilization. Extrapolating the end of capitalism as a stage when technology attained a state of perfection, he inferred:

A more or less stationary state would ensue. Capitalism, being essentially an evolutionary process, would become atrophic. There would be nothing left for the entrepreneurs to do. . . Profits and along with profits the rate of interest would converge toward zero. The bourgeois strata that live on profit and interest would tend to disappear. The management of industry and trade would become a matter of current administration, and the personnel would unavoidably acquire the characteristics of a bureaucracy. Socialism of a very sober type would almost automatically come into being. (Schumpeter, 1950: 131; emphasis added)

As we saw above, Schumpeter used ‘transition’ without hesitation. There is one exception:

The capitalist process not only destroys its own institutional framework but it also creates conditions for another. Destruction may not be the right word after all. Perhaps I should have spoken of transformation. The outcome of the process is not simply a void that could be filled by whatever might happen to turn up; things and souls are transformed in such a way as to become increasingly amenable to the socialist form of life. With every peg from under the capitalist structure vanishes the impossibility of the socialist plan. (Schumpeter, 1950: 162; emphases added)

This was how he saw capitalism as maturing and paving the way for socialism, and which he associated with the concept of ‘transformation’. This remained only as a theoretical prediction.

Something else happened instead. Schumpeter had already made a connection in his ‘Prologue’ between Marx’s thought and Soviet Russia that orients us in this respect:

The last twenty years have witnessed a most interesting Marxian revival. That the great teacher of the socialist creed should have come into his own in Soviet Russia is not surprising. And it is only characteristic of such processes of canonization that there is, between the true meaning of Marx’s message and bolshevist practice and ideology, at least as great a gulf as there was between the religion of humble Galileans and the practice and ideology of the princes of the church or the warlords of the Middle Ages. (Schumpeter, 1950: 3; emphases added)

Schumpeter did not dispute that Bolsheviks, who called themselves communists and at the same time “the true and only socialists”, were socialists (Schumpeter, 1950: 168). At the

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27 After the war was over, writing in July 1946, Schumpeter stated in retrospect that it was already obvious in July 1942 that “there would be another great stride toward the socialist order” (Schumpeter, 1950: 376)
same time, he maintained “no socialist will accept the Russian experience as a full-weight realization” (Schumpeter, 1944: 187). For the critical decade of 1917-1927, he wrote:

> It must be remembered that the Bolshevik conquest of the rule over the most backward of all the great nations was nothing but a fluke. To a certain extent Lenin himself recognized this. He repeated over and over again that final victory would be won only by the action of the revolutionary forces in more advanced countries and that this action was the really important thing. (Schumpeter, 1950: 359)\(^{28}\)

The gap between Marx’s theory and Soviet Russia’s practice is ultimately linked with two major questions. One involves the relationship of socialism with democracy and the other the role of evolution versus revolution in the transition to socialism. Schumpeter was no fan of democracy\(^{29}\) and noted that Marx himself would have prioritized socialism over democracy (Schumpeter, 1950: 236). As for the second question, Schumpeter saw himself as, once again, on the same side with Marx:

> If I have caught Marx’s meaning, the answer is not hard to give. Evolution was for him the parent of socialism. He was much too strongly imbued with a sense of the inherent logic of things social to believe that revolution can replace any part of the work of evolution. The revolution comes in nevertheless. But it only comes in order to write the conclusion under a complete set of premises. The Marxist revolution therefore differs entirely, in nature and in function, from the revolutions both of the bourgeois radical and the socialist conspirator. It is essentially revolution in the fullness of time. (Schumpeter, 1950: 58; emphases added)

Hence for Schumpeter, whereas socialism was inevitable, the Russian road to it was far from what Marx had envisaged. According to Schumpeter, the “stage of the capitalist evolution” at which the transition is made was of utmost importance for determining the types and strengths of the difficulties to be faced (Schumpeter, 1950: 219). In relation with the two possible stages, he specified two paths of transition. One he called “socialization in a state of maturity”, and the other, “socialization in a state of immaturity”. Whereas the first relies more on evolution, the second refers to revolution as a result of which a socialist regime has been set up by force. At first sight, the second seems to fit well the Russian case whereas the first sounds like the route taken via a welfare state to socialism. However, this is far from correct. Because, for both cases, Schumpeter presumed fully developed and ‘fettered’ capitalism of the big business-type to hold as a prerequisite (Schumpeter, 1950: 201 and 219). A seeming likeness of the Russian case as an approximation to the “socialization in a state of immaturity” can only be relatively true, and does not hold much water when this

\(^{28}\) With the advent of socialism in one country thesis, the world revolution became a “frozen asset” at least until the then “present war” that Schumpeter thought could perhaps “revive it” (Schumpeter, 1950: 361) and it did not.

\(^{29}\) Schumpeter had little faith in substantive democracy, and he saw modern indirect or representative democracy as a market-like competitive method to produce a government (Schumpeter, 1950: 218 and 242).
precondition is brought into sight.\textsuperscript{30} As instances of a likely transition of this second kind, Schumpeter had the “German situation in 1918 and 1919” in mind together with “the American situation of 1932” (Schumpeter, 1950: 223) and obviously not the Russian situation of 1917\textsuperscript{31}.

The above cases available to socialism, except for Russia, entailed democratic procedure as the political counterpart to economic maturation of considerable degree. Schumpeter deliberately formulated his economic blueprint of socialism as culturally and politically indeterminate:

\begin{quote}
Between socialism as we defined it, and democracy as we defined it there is no necessary relation: the one can exist without the other. At the same time there is no incompatibility: in appropriate states of social environment the socialist engine can be run on democratic principles. (Schumpeter, 1950: 284)
\end{quote}

Nevertheless, he was well aware that democracy could only work with the more ‘mature’ cases of transition candidates (Schumpeter, 1950: 301):

\begin{quote}
[E]conomic maturity which among other things implies that no great sacrifices need be required of one generation for the benefit of a later one. But even if there is no necessity for sweating the people by means of a Gosplan, the task of keeping the democratic course may prove to be extremely delicate. (Schumpeter, 1950: 302)\textsuperscript{32}
\end{quote}

Schumpeter was at ease with socialists accommodating themselves to democratic procedure, so much so, as to argue that even Lenin, who otherwise had “a streak of Mongol despotism […] present in his scheme of thought” (Schumpeter, 1950: 358)\textsuperscript{33} would have behaved

\textsuperscript{30} Nevertheless, the Russian case had a practical relevance for understanding the second path. A major policy instrument for governments embarked upon this path is identified as inflation and Schumpeter did not hesitate to refer to Lenin in this context: “[I]t must not be forgotten that inflation would powerfully ram such blocks of private business as may have to be left standing for the moment. For, as Lenin has pointed out, nothing disorganizes like inflation: “in order to destroy bourgeois society you must debauch its money.” (Schumpeter, 1950: 227)

\textsuperscript{31}“Tsarist Russia was an agrarian country of largely pre-capitalist complexion. The industrial proletariat, so far as it was accessible to the professional socialist, formed but a small part of the total population of about 150 millions. The commercial and industrial bourgeoisie, correspondingly weak in numbers, was not much more efficient than anyone else, though capitalist evolution fostered by the government was rapidly gathering momentum. Inserted into this structure was an intelligentsia whose ideas were as foreign to the soil as were the Paris dresses of Russian society women.” (Schumpeter, 1950: 326; emphasis added)

\textsuperscript{32}In principle, Schumpeter also maintained a distinction among democracy and freedom and emphasized that the maintenance of democracy in a socialist society had no major automatic consequences for the expansion of the scope of freedom: “[S]ocialist society lacks the automatic restrictions imposed upon the political sphere by the bourgeois scheme of things. Moreover in socialist society it will no longer be possible to find comfort in the thought that the inefficiencies of political procedure are after all a guarantee of freedom. “(Schumpeter, 1950: 299). He repeated, “In any case, that democracy will not mean increased personal freedom.” (Schumpeter, 1950: 302).

\textsuperscript{33} A later critic deployed this theme by emphasizing the legacy of ‘Asiatic mode of production’ in general, and “with the political traditions of Tsarist autocracy going back to the despotism of Baty Khan,” in providing a foundation for ensuing ‘economic despotism’ (Bahro, 1978: 65-68, 131).
similarly had he been not in Russia but in England or Germany. As such, we are back again at the specificity of Russia’s circumstances. It is with respect to this issue that the distance between the socialist model and practice turned out to be greatest. So much for the gap between theory and practice.

It is now time to return to the relation between the international context and practice. Writing in July 1942, Schumpeter foresaw two scenarios for the postwar order in Europe. One of them assumed that Soviet Russia would emerge victorious from the war with Stalin as the true winner:

Certainly there is a possibility that Russian despotism will spread over the ruins of European civilization—or even beyond them—and that in this case the communist parties all over the world will be turned into Russian garrisons. But there are many other possibilities. And one of them is that Russian regime will founder in the process or that in spreading over other countries it will acquire traits more congenial to the individual national soils. A special case of this kind would be that in the end the Russian element will have changed nothing in the future character of revolutionary socialism. (Schumpeter, 1950: 363)

On the other hand, if in the victory of the allies, the greater honors exclusively went to the British and the English, things could be otherwise as he called ‘liberal socialism’ arose:

Then we see readily that orthodox socialism of the German Social Democratic or of a still more laborite type stands a much better chance to survive on the continent of Europe, at all events for some time. One reason for believing this is that people, if they find both the bolshevist and the fascist routes barred, may well turn to the Social Democratic republic as the most obvious of the remaining choices. But there is a much more important reason: laborite socialism will enjoy the favor of the victors. For the consequence of so complete a victory as we now envisage will be Anglo-American management of the affairs of the world—a kind of Anglo-American rule which, from the ideas we see taking shape under our eyes, may be termed Ethical Imperialism. (Schumpeter, 1950: 373)

Schumpeter did not conceive a third alternative where neither of the two parties could come on top, and consequently Europe would be divided into two spheres of influence. This is in fact what happened. The Cold War inhibited social democracy from any genuine experimentation beyond the confines of the welfare state, and Russian socialism from being transformed from within under the influence of newly acquired territories as Schumpeter anticipated as a distinct possibility.

34 “Thus in professing allegiance to democracy, [socialists of developed countries] simply did the obvious thing all along. The fact that their policy did not give pleasure to Lenin does not prove that, had he been situated as they were, he would have behaved differently.” (Schumpeter, 1950: 238)

35 This is one domain where Schumpeter and Polanyi stood worlds apart. Whereas for Polanyi, socialism without freedom and democracy was meaningless, for Schumpeter it was perfectly feasible in theory, and all the more so in practice, especially when circumstances approximated to those of Soviet Russia and Eastern Europe.
When the war was over, Schumpeter praised Stalin for his *Realpolitik* and expected:

The facts we have glanced at suggest that, *unless Stalin makes the first mistake of his life*, there will be no war in the next years and Russia will be left undisturbed to develop her resources, to rebuild her economy, and to construct by far the greatest war machine, absolutely and relatively, the world has ever seen. (Schumpeter, 1950: 403; emphasis added)

He also predicted correctly that Soviet Russia would export her highly-centralized model of economic planning on countries brought into its orbit:

It is true that there is a strong reason for expecting nationalization of industry in all countries in which Russia is free to act without feeling hampered by tactical considerations of foreign policy: a nationalized industry is easier to manage and to exploit for a conqueror and cannot become a center of opposition. (Schumpeter, 1950: 405)

The fate of Eastern Europe was thus sealed in the worst of all possible worlds. To give to Caesar what belongs to Caesar, Schumpeter, who missed the third way out, foresaw:

Once more: it is only socialism in the sense defined in this book that is so predictable. Nothing else is. In particular there is little reason to believe that this socialism will mean the advent of the civilization of which orthodox socialists dream. *It is much more likely to present fascist features.* That would be a strange answer to Marx’s prayer. But history sometimes indulges in jokes of questionable taste. (Schumpeter, 1950: 375; emphasis added)

Hence, Schumpeter, having started off from a different framework of comparison and sticking more closely to a more classic notion of transition, nevertheless converged with Polanyi in terms of assessing the final outcome, that was to become much later the object of yet another transition, only this time in reverse. Had this been his whole achievement, his contribution could be considered as a confirmation via elaboration of the Polanyi thesis.

Fortunately, this is not the whole story. Schumpeter was a daring theorist who did not fear taking big steps at the cost of making occasional mistakes. He compared capitalism and socialism to delineate the strengths and weaknesses of each. Whereas in his whole section on capitalism he brought to the foreground all the admirable aspects of capitalism such as its dynamic nature, openness to innovation by way of the entrepreneurial process, ability to renew itself through periodic experiences of creative destruction, not to mention its ability to allocate resources (more) efficiently (and less costly than any other mechanism designed intentionally for this purpose) and distribute incomes as incidental to the working of the individually profit-motivated economic process. It is in his section on socialism, however, he

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36 This is one critical juncture where Schumpeter’s conclusion would converge with the fears of Polanyi because of the great importance the latter gave to individual rights and liberties and the issue of democracy.
cast light on the dark side of capitalism and identified its weaknesses. If we reassemble these arguments together, we see that Schumpeter had in mind an implicit balance-sheet.  

First and foremost was his identification of ‘friction’ and ‘wastefulness thereof’ as a major structural attribute of capitalism. The root cause of this was the artificial separation of private and public spheres under capitalism. Because of the symbiosis of feudal and capitalist elements in a kind of political economic exchange where the latter specialized in economic affairs whereas the former were vested with the task of protection, there had emerged the phenomenon of state:

We might of course define it [the state] by the criterion of sovereignty and then speak of a socialist state: But if there is to be meat in the concept and not merely legal or philosophical gas, the state should not be allowed to intrude into discussions of either feudal or socialist society, neither of which did or would display that dividing line between private and the public sphere from which the better part of its meaning flows. To conserve that meaning with all its wealth of functions, methods and attitudes, it seems best to say that the state, the product of the clashes and compromises between feudal lords and bourgeoisie, will form part of the ashes from which the socialist phoenix is to rise. Therefore, I did not use it in my definition of socialism. Of course socialism may come about by an act of the state. But there is no inconvenience that I can see in saying that the state dies in this act—as has been pointed out by Marx and repeated by Lenin. (Schumpeter, 1950: 169; emphases added)

The state and the friction between the private and public spheres caused enormous ‘waste’ in the struggle of the state for revenue collection by way of taxes from the private sector as well as some of the best minds going wastefully into professions like law stimulated by the opportunities of making money and fame in the friction interface. By eliminating this artificial separation, socialism could in principle save much and score high.  

The gap between theoretical anticipation and actual practice turned out to be great in this respect. In fact, actually existing socialism in Soviet Russia and its transplants elsewhere were characterized by the extension of the state rather than its elimination by ‘withering away’.

37 We exclude from our discussion of the balance-sheet the relative innovation prospects because Schumpeter thought this was becoming irrelevant because capitalism was itself killing its entrepreneurial spirit and growing out of innovation by developing highly specialized R & D departments that rutinized innovation. Because capitalist performance was on the decline towards a negligable steady state, socialism could match it, no matter how poorly it performed as was the case with investment in general. Time has proven Schumpeter grossly wrong in this respect. At the end of the road, not only did capitalism continue to innovate quite well albeit differently, Soviet style economies hit a dead end. It was only in military and aerospatial industries that the Soviet economy performed relatively better in this respect, a fact attributable to the internationally ‘competitive’ character of these industries.

38 In 1949, Schumpeter returned to this issue in a more conventional way: “[W]e may equate the march into socialism to a conquest of private industry and trade by the state. The apparent paradox that this very same process is described by classic socialist doctrine as the “withering away of the state” is easily resolved if we take account of the Marxist theory of government”. (Schumpeter, 1950: 415) Schumpeter’s reference is to the Marxist theory of state that saw government as an instrument of class rule. Where class rule was eliminated, by definition there would be no state left in the original sense.
Ironically, when state was overgrown so as to encompass everything, it became practically invisible once the inside-outside boundary was erased. If anything, it was the withering away of market combined with the absence of the democratic procedure of government that shaped the actuality. At the end of the way, we were faced in Russia and Eastern Europe with an obese state that had become far less efficacious because of its very size.\footnote{It Nevertheless did not include everything just as markets never disappeared fully.} The Soviet Empire, which collapsed under its own weight with the Fall of the Berlin Wall in 1989, was the return of Imperial Russia with a revenge. The social engineers of the transition-in-reverse, on the other hand, heavily misled by the burden of history and the advice of narrow-minded so-called ‘transition experts’, insisted stubbornly in rolling the overstretched state this time far too back.\footnote{“Thus a strong state rather than a minimal state, a competent state administration rather than a cheap state administration, is required for a successful transformation. A strong state is not necessarily a strongly interventionist one since its indicator of success is output (effects brought about by its intervention) rather than input (the number and variety of measures instituted to ward off responsibility for outcomes). Moreover, those who can be confident in the efficacy of their actions may not feel the same need to intervene.” (Csaba, 2002: 49)} The (neo)liberal dictum that a smaller state means larger scope for market economy\footnote{This is identified as one major ‘transition fallacy’: “As understood in this conventional approach, in the place of the ‘old’ inferior state, a ‘new,’ but also superior, market (as a substitute) is stepping in.” (Poznanski, 2002: 57)} had for long been falsified by Polanyi’s description of the nineteenth century, when states and markets expanded together precisely because market is an institution that requires buttressing.\footnote{There is also a purely economic reason why the zero-sum approach to state and market does not hold. In criticizing the recessionist obsession of shock terapists who indulge themselves in “romancing the market mechanism”, it has been argued that “[g]iven the universal observation that public investment stimulates or ‘crowds in’ private capital formation, this form of recovery is unlikely in the absence of activist investment policy on the part of the state.” (Amsden, Kochanowicz, Taylor, 1994: 48, 78)} However, this known truth was conveniently overlooked by authorities. At the end, those countries that seem to have benefited most from the transition are ironically the ones that placed themselves as quickly as possible under the readymade umbrella of the European supra-national ‘state’.

The second item on Schumpeter’s balance-sheet concerns ‘social discipline’ in general, and the disciplining of labor and intellectuals in particular. For Schumpeter, capitalism was weak in this respect. Being economically motivated, the capitalists had embraced the historical symbiosis with the once feudal aristocracy. Hence, discipline was taken care of by these social remnants themselves being a nonrenewable resource. The decline of labor discipline in the workplace was evidence of this irreversible process. Moreover, bourgeoisie, by cultivating a critical attitude in general had set up an example for intellectuals
who knew not where to stop because this is from where they made their living. Faced with the problem of social discipline, capitalism was helpless and Schumpeter insisted that socialism might be the only way of achieving this end (Schumpeter, 1950: 215). He noted the ‘impressive’ record of the Bolshevik Revolution of 1917. The revolutionary regime had completed the disorganization of the small but highly concentrated industrial proletariat of Russia” (Schumpeter, 1950: 216) and proceeded with the fostering of trade-unions while at the same time subjugating them to the communist party. Schumpeter commented:

The cruelties to individuals and whole groups are largely attributable to the uniqueness of the situation, to the circumstances of the country and the quality of its ruling personnel. In other circumstances, in other stages of development and with other ruling personnel they will not be necessary. If it should prove unnecessary to apply any sanctions at all, so much the better. The point is that at least one socialist regime has actually been able to foster group discipline and to impose authoritarian discipline. It is the principle that matters and not the particular forms in which it was turned into practice. (Schumpeter, 1950: 218; emphases added)

Moreover, Schumpeter acknowledged the ‘super’ performance of the Russian case:

“[T]he Russian experience may be inconclusive on many points, but it is conclusive on this. Hardships and ‘abstinence’ have been imposed such as no capitalist society could ever have enforced.” (Schumpeter, 1950: 210)

Looking back from where we are, it may seem paradoxical, that ultimately, it was the spontaneous revolt of the working-class under the banner of Solidarity against socialism—

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43 “In defending the intellectuals as a group—not of course every individual—the bourgeois defends itself and its scheme of life. Only a government of non-bourgeois nature and non-bourgeois creed—under modern circumstances only a socialist or fascist one—is strong enough to discipline them.” (Schumpeter, 1950: 150; emphasis added)

44 According to Schumpeter, the greatest obstacle on the eve of postwar reconstruction on the way of socialist governments in the West was also to do with this issue: “But the real problem is labor. Unless socialization is to spell economic breakdown, a socializing government cannot possibly tolerate present trade-union practice. The most irresponsible of politicians would, in the case envisaged, have to face the basic problem of modern society that only Russia has solved, the problem of industrial discipline. A government that means to socialize to any great extent, will have to socialize trade unions. And as things actually are, labor is of all things the most difficult to socialize.” (Schumpeter, 1950: 379; emphases added)

45Schumpeter linked success in this respect with plausible unwillingness for and failure in democratic method: “After all, effective management of the socialist economy means dictatorship not of but over the proletariat in the factory. The men who are there so strictly disciplined would, it is true, be sovereign at the elections. But just as they may use this sovereignty in order to relax the discipline of the factory, so governments—precisely the governments which have the future of the nation at heart—may avail themselves of this discipline in order to restrict this sovereignty. As a matter of practical necessity, socialist democracy may eventually turn out to be more of a sham than capitalist democracy ever was.” (Schumpeter, 1950: 302)

46 The revolt itself was much in the spirit of Polanyi’s spontaneous movement from below for the sake of social self-protection: “We cannot say with anything like certainty, but it has occurred to us that the success of Solidarity in the 1980s may have owed much to ‘customs of the trade’ deeply rooted in the experiences of shipyard workers, perhaps dating back to before World War II. If so, the informal rules, and associated attitudes, did not need to be articulated by the leadership: everyone knew them, almost subconsciously.” (Hake & Neale, 2001: 28-9) Nevertheless labor became compliant soon after its access to a s hare of power: “post-communist unions tended to be pro-capitalist chiefly because they were anti-communist, and came to believe that the enemy of their enemy was their friend. This was particularly true in Poland, where opposition union movements emerged before 1989, fighting against ‘communism’. But even in those countries where old official unions stayed dominant, post-1989 leaders were anxious to dissociate themselves from the past, and proclaimed their
that remains unequalled in capitalist history—which allowed Poland to overtake Hungary on the path of transition and thereby heralded the breakdown of the socialist system. Even so, intellectuals like Aleksandr Solzhenitsyn, Czeslaw Milosz and Vaclav Havel had all along voiced their discontent with the socialist regime at home or in exile and became the midwives of postsocialist transition.

Last but not least, ‘uncertainty’ is the third item on Schumpeter’s balance-sheet. Not only is this a very important theme, but it opens new vistas of strong relevance for the interpretation of a fundamental attribute of the transition-in-reverse. He thought socialism would significantly help reduce uncertainty and enjoy a considerable advantage over capitalism:

[O]ne of the most important difficulties of running a business—the difficulty which absorbs most of the energy of a successful business leader—consists in the uncertainties surrounding every decision. A very important class of these consists in turn in the uncertainties about the reaction of one’s actual and potential competitors and about how general business situations are going to shape. Although other classes of uncertainties would no doubt persist in a socialist commonwealth, these two can reasonably be expected to vanish almost completely. (Schumpeter, 1942: 186)\(^\text{48}\)

In order to address this point, we need to briefly evaluate the status of uncertainty under capitalism in general and its relationship to ‘Time’s Arrow’ in particular. Only after having done this, can we approach head on the problem of uncertainty in relation to socialism and transition-in-reverse. Let us start with the question of whether or not uncertainty increases or decreases as we move along with the Time’s Arrow. The mainstream liberal position suggests that because our knowledge in general, as every other producible ‘good’ in our lives, increase over time, uncertainty decreases by implication. Markets, if left to their own, reduce uncertainties by either attaining equilibrium through the shortest way possible or by stimulating on the way the creation of specialized data and information providing institutions.\(^\text{49}\) There is a grain of truth involved here as “institutions are a response to

\(^{47}\) This paradoxical point has been observed in relation with Schumpeter (Chavance, 1999: 308-9).

\(^{48}\) “There are cases in which capitalist industries are so circumstanced that prices and behavior theoretically become indeterminate. They may occur, though they do not always occur, whenever there is oligopoly. In a socialist economy—everything—limiting cases without practical importance alone excepted—is uniquely determined. But even when there exists a theoretically determined state it is much more difficult and expensive to reach in the capitalist economy than it would be in the socialist economy. In the former endless moves and countermoves are necessary and decisions have to be taken in an atmosphere of uncertainty that blunts the edge of action, whereas that strategy and that uncertainty would be absent from the latter.” (Schumpeter, 1942: 194)

\(^{49}\) Even Post-Keynesians can share this viewpoint: “The system reacts to the absence of the information the market cannot provide by creating uncertainty-reducing institutions: wage contracts, debt contracts, supply
uncertainty” (Loasby, 2002: 46). However, institutions are usually designed to reduce specific uncertainties, and while accomplishing that task, they may have unintended or undesirable side effects. These effects may originate from the nature of the fit of newly created institutions with the existing institutional framework or from the fact that while reducing specific uncertainty they are concerned with, they may still be contributing to increases in total uncertainty (because of either less than perfect fit, or exclusion, etc.). On the other hand, institutions in general, irrespectively of whether or not specifically designed to reduce a certain kind of uncertainty, induce systemic stability and sustainability because “the existence of some institutions, depending on how widespread they are, may reduce uncertainty by ruling out at least some events or outcomes which would be possible or more likely otherwise” (Dequech, 2004: 374). Obviously, such a process contributes to reducing total uncertainty. Furthermore, in sharp contrast to the mainstream liberal position, Schumpeterian characterization of capitalism sees a more complicated dynamics at work—with equilibria being exceptional instances along a punctuated long trajectory—that increases uncertainty in general: “under the institutional arrangements of capitalism, there is an endogenous pressure for the introduction of innovations, which creates uncertainty” (Dequech, 2004: 372n). Be that as it may, there is also an indirect effect of institutions to do with ‘exclusion’ that may be conveniently deemed as the ‘social cost’ of institutions. Accordingly, whereas beneficents of institutions face reduced uncertainty in the first round, those who are excluded by definition are face increased uncertainty. This triggers more uncertainty also for the beneficents in the next round because of the snowball effect of the uncertainties created for the excluded in the first place. For example, property rights, by reducing uncertainties for property owners, simultaneously generate uncertainties for those who are deprived of property. The uncertainty thereby enveloping the property-less ones pervades the certainty-realm of property owners, as the latter are always subject to potential threats emanating from the former.50 Hence, we

50 Concerning the most important single factor of production for the greatest part of population, under socialism, the unwritten law of the land was based on “a common understanding that land should not be left untilled and that no one should be deprived as long as they were making proper use of it. Given this, it was therefore predictable that villagers would react to the ‘unfairness’ of the new situation by relying on a pattern already familiar to them, that is, social pressure. (Hivon, 1998: 44)50 The problems of exclusion, albeit to varied degrees, have been vast since the postsocialist transition, especially in the case of women50 (Haney, 1999) who “are most likely to be among the first victims of structural adjustment” (Pine & Bridger, 1998: 10) as well as the case of Roma (Sibley, 1998), and in the absence of sheltering institutions50 the problems of crime and security have exponentially increased.
believe, it would be more prudent to assume total uncertainty probably is not being reduced over time, if it does not actually increase, as may well be the actual case.

We are now well prepared to speculate what the ‘Transition-Effect’ on this overall picture is likely to be. First of all, ‘transition’, indicates a superimposition of two systems with contradictory logics of their own. Moreover, both systems come with a corresponding set of institutions, both formal and informal. Whereas one set of institutions that are on the decline with the now-discredited regime linger on for a while, a new set of institutions supposedly characteristic of the new regime take the stage. Most of these new institutions are deliberately designed and/or introduced by fiat rather than being spontaneous outgrowths; hence the social engineering aspect of ‘transition’. In general, at the level of formal institutions there exists a shift of priority in favor of the new ones, whereas at the level of informal institutions, priority remains vested in the old ones because new informal institutions can only emerge spontaneously by trial-and-error over time. Irrespectively of this differential effect, during ‘transition’, we have more institutions than in normal times. We can dub this as ‘institutional contamination’ or ‘institutional pollution’. “Some new institutions will survive, while some old ones will also, but many more will expire.” (Pejovich, 1993: 78) Until a final single set of institutions asserts its hegemony with the elimination of the now defunct rivals, this remains a lasting picture. Until then, the superimposition of the institutions of two logically incompatible systems causes a further problem. Because of this transitional abnormality, the principle of institutional complementarity that usually characterizes an institutional setup and generates positive spillovers from the viewpoint of economic agents is violated. As a consequence, agents find themselves in a “predictably confused” (Pejovich, 1993: 71) state. Reminding us that the future helps shape the present by way of expectations, but because expectations cannot be properly shaped under such confusing present circumstances of abrupt change plagued with “tremendous uncertainty” (Arrow, 2000: 14), an economist with strong technical credentials felt obliged to appeal for moderation:

I am arguing against a big-bang solution to social and economic ills. A government is only a limited part of society, and drastic actions by it are apt to be ineffectual and even counter-productive if not consistent with the workings of the many intermediate institutions which constitute the everyday world within which individuals transact with each other. Legal changes have to be consistent with the prevailing practices and expectations. The law is important in changing those

51 “[W]hile the formal institutions may be replaced, the expectations of people and the processes inherited from the past may either continue or be reconstituted. . . A transition from above will not work if the social and institutional preconditions are not in place, including the values and norms of the population.” (Lane, 2007: 3)
expectations, but it is not omnipotent. Drastic changes in economic organization, even if in the direction of reducing state power, cannot easily be imposed. To use a term suggested to me by Rudolph Richter, institutional change is expectation-dependent as well as path-dependent. (Arrow, 2000: 17-8)

With about twice as many institutions around and unable to foresee the end-point of transition, economic agents find themselves at a loss. This is because their usual routines do not cohere with especially the nascent set of institutions:

People’s responses to a situation may often appear as holdovers precisely because they employ a language and symbols adapted from previous orders. This does not mean their vision of the world has been so “corrupted” by the socialist experience as to make them unfit for other ways of life; it means only that action employs symbols and words that are not created de novo but develop using the forms already known, even if with new senses and to new ends. (Burawoy & Verdery, 1999: 2)

One inevitable consequence of ‘transition’ is that it depreciates existing stock of ‘tacit knowledge’ which serves as a foundation for routine-based behavior. Until a stock of older ‘pre-communist’ knowledge that now becomes once again useful is either recovered or its equivalent is built up, there is definitely a net loss of knowledge on part of decision makers. This means that, for the time being, economic agents are forced more than usual to rely on ‘calculated’ rationality of the standard economic kind. On the other hand, the future is even less known or anticipated than usual. “A shock-like transition upsets a given system of expectations and economically founded expectations [can no] longer be formulated.” (Gabrisch & Hölscher, 2006: 24) In such a context, agents cannot carry out the rationality calculus expected of them as future is radically uncertain to be assigned probabilities that only work well with risk. Whatever success exists from the viewpoint of agents “is, on the whole, individualistic and set against a wider framework of uncertainty and instability.” (Pine & Bridger, 1998: 7) This kind of success is achieved only because agents are forced by the circumstances to rely either on their common sense or be creative in their daily endeavors. In either case, they are bound to miss their targets, by falling short of it in the first case because of over prudence, and by outperforming occasionally because of their creatively entrepreneurial engagements. The times thus favor the adventurous risk-takers over the risk averse or ordinary citizens. It is no surprise that while the few may perform better than usual as well as the average, the many are likely to lose at least in the short term. Moreover, most if

52 In “European former Communist countries, the task is one of recovering a lost tradition of law and commerce; in Russia and other similarly located region, the change involves a step into the unknown.” (Barry, 1993: 20-1)

53 “Survival strategies are not necessarily ‘economically rational’ according to models of supply, demand and efficient self-interest. However, in terms of cultural meaning, local knowledge and understanding, and within the context of social relationships and networks, they are often the best and most sensible responses people can make.” (Pine & Bridger, 1998: 11)
not all are forced to behave myopically focused on short-term ends.\textsuperscript{54} No wonder why the number of those socially and economically ‘excluded’ from both circuits of knowledge and economic opportunity explodes rapidly during ‘transition’.\textsuperscript{55}

At first sight, transitions offer an excellent opportunity not only for the adventurously spirited individuals but also the people to indulge in experimentation with institutional change. Given the weakened state of old institutions and the weak state of new institutions in a transition period, people find themselves in a rare opportunity where the \textit{rapports de force} between structures and agents is tilted in favor of the latter, especially when the majority of economic agents are frustrated and discontented, that is, experiencing “economic anger” (Ost, 2007: 89):

Transitions are, therefore, best understood as \textit{under}determined political situations in which the absence of clear rules and the struggle between differ actors over the nature of these rules make the political outcomes very unpredictable—especially in terms of the structures in which they are embedded. This is the central assumption of the transitological literature, which has repeatedly emphasized the high degree of uncertainty characterizing transition. . . Transitions are open historical moments . . . in which the possibility and the direction of change lies primarily in the political strategies adopted by various groups and individuals involved in the process. (Schmitter & Guilhot, 2000: 134)

In a similar spirit, a highly-qualified yet nonconformist Polish economist optimistically anticipated:

History is stronger than the will of rulers and the sociological imagination of a society. Thus we can be sure that the Central and East European countries starting their march towards new socio-economic systems with their particular burdens of history, educational standards and social security nets than were the case in the pre-industrial West, will arrive not at a simple replication of existing models but at hitherto unknown variations. (Kowalik, 1994: 188)

Now we know that this has not been so. We need to understand why. The question remains if the economic agents are in a position to make use of this opportunity placed on their way. It seems the majority were when the transition in early twentieth century was at issue. However, the same did not hold for the transition-in-reverse at the late twentieth century. This time, they tended to settle for ‘satisficing’ solutions rather than go for the better. Why this has

\textsuperscript{54} “Because the postsocialist moment means constant change in the parameters of action, actors tend to strategize within time horizons that are short. New laws keep appearing, taxation policy is continually shifting, inflation makes long-term calculations difficult, and fluctuating interest rates make investment risky.” (Burawoy & Verdery, 1999: 2)

\textsuperscript{55} Perhaps no better direct evidence can be found of disillusionment of the excluded than the following statement of a Polish village woman: “You remember what it was like before. Everything was so cheap we could afford it, but there was nothing in the shops, so we couldn’t buy anything. Well, now there is everything in the shops but it is all so expensive, we still can’t buy anything. What’s the difference?” (Pine, 1998: 106)
been so needs further elaboration because it is also to do with the asymmetry of the two transitions.

The socialist economies of the Soviet Union and Eastern Europe were based on the principle of maximally inclusive mandatory planning. As such, they were attempts from above to construct the reality as a ‘closed-system’ after the image of the blueprint in mind. If only it could work, it would have reduced uncertainty and made life a lot easier for all. Whereas Schumpeter had only wished the simulation of a general equilibrium system by central planning, the policymakers were far more ambitious to round off a world as if it were actually closed. The imposition of the blueprint on to the economy resulted nevertheless on a planned economy. This meant a rigid interlock of the institutions that made up the system. Such a rigid interlock of institutions could neither accommodate change flexibly nor the piecemeal substitution of specific institutions at a later point in time. Change was thus ordained to come with a sudden rupture. The sudden crumbling of the excessively protective old regimes left these artificially ‘closed-systems’ wide open to change. As such, we have suddenly been faced not so much with open-systems as should be the normal case, but with ‘wide open’ systems. Functioning of both agents and institutions in such a ‘wide open’ system becomes all the more difficult.

For economic agents who have to work with the institutions-in-the-making within a context of institutional overcrowding, such a high level of uncertainty can prove deadly. Therefore, what is needed first and foremost in such a context is confidence-building. This is relatively easy to do the first time, next to impossible to do a second time. All the more so when it is preceded by a major disillusionment with a state-centered grandiose project for outright social transformation (Bryant & Mokrzycki, 1994: 7) that leaves behind “a legacy of distrust” (Raiser, 2002: 82). It is no coincidence that the countries that experienced transition-in-reverse are characterized by a weak informal institution of trust, especially when it comes to ‘extended trust’ defined as “the ex ante willingness to cooperate with anonymous others” (Raiser, 2002: 94). Therefore, only one practical way out remained. At first sight, in conformity with neoliberal prescriptions, it seems more rational and economically more sound to adopt institutions already proven to be effective in the outside world, rather than

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56 In Eastern Germany, “the slogan "keine Experimente!" won many hearts and minds.” (Jacoby, 2002: 149). Only, some twenty years ago, in the summer of 1968, according to a questionnaire, 89% of partisans had expressed a socialist orientation whereas only 5% desired a return to capitalism (Asselain, 1999: 108).
engaging resources and energies in institution-building that involves not merely high but higher ‘transformation costs’\textsuperscript{57} by a trial-and-error process (Grabher & Stark, 1998: 55, 70). The pulling-effect of the European Union as “an anchor, peer and savior” (Åslund, 2002: 454) has been particularly strong, and the option of crash-landing has been widely popular in Eastern Europe, with major consequences:

While academic analysts have engaged themselves in endless debates about the proper choice of ‘East European capitalism’, and its alternative models, for both Left and Right policy-makers most decisions have been either determined by or suggested by the exigency of adjusting to the formal and informal requirements of the European Union. (Czaba, 2004: 338)

Hence followed the voluntary “institutional monocropping” (Evans, 2004: 30-31) in Eastern Europe.\textsuperscript{58} The problem of confidence-building is thus bypassed by integration with a greater institutional setup. To put it differently, ‘transition’ becomes ‘integration’, or better still, ‘incorporation’. That is, the unit of ‘transition’ and analysis shifts to a larger scale in the meantime. The seductive attraction of the European Union, which implements an effective carrots-and-sticks policy to this effect (Havrylyshyn, 2006: 208), for Central and East European countries is to be seen in this perspective\textsuperscript{59}:

But the lure of being inside, not outside, a large customs union and single market must add to the incentives to become more like the neighbours. And the accession negotiations—perhaps partly through the emphasis on government and judicial capability and partly through the downloading of the \textit{acquis}—seem likely to have helped. The \textit{acquis} is indeed a collection of rules and procedures that comes under the broad heading of ‘institutions’. (Hanson, 2007: 110)\textsuperscript{60}

Whether or not these are the better, if not the best, set of institutions for the specific countries in question is ignored for the sake of certainty promised by modest outcomes. The fact that this process would also contribute in the long-term to the reduction of institutional diversity

\textsuperscript{57} Transformation costs are higher than usual because of the earlier grandiose experiment that is now entirely discredited.

\textsuperscript{58} For example, many countries have already adapted European competition policy “by taking over the relevant chapters from the \textit{acquis communautaire}.” (Gabrisch & Hölscher, 2006: 147)

\textsuperscript{59} This is also the way in which ‘transformation’, the endpoint of which is far from certain, is tamed into a more predictable process of ‘transition’. There exists another similar process: “accession to NATO worked as an anticipated institution, suggesting reorientation of the position of the army within the structure of the state and thereby strengthening the state’s democratic character.” (Federowicz, 2000: 104) The first laboratory experiment that became a trendsetter in this respect was the unconditional wholesale absorption of East Germany into the institutional setup of West Germany that could not have worked without large net transfers (Dunford, 1998: 100-107). Other “safe havens” for big-bang favoring transition economies are identified as World Trade Organization, international financial institutions including of course the International Monetary Fund and World Bank (Havrylyshyn, 2006: 216).

\textsuperscript{60} By the way, the \textit{acquis} is some 80,000 pages comprising 34 Chapters! (Havrylyshyn, 2006: 210; Hanson, 2007: 104) Such a transplant is bound to lead to a certain institutional monocropping no matter how much flexibility of policy-making is allowed in principle, especially when the European Commission insists that “there should be a very small gap between formal rules and actual practices.” (Jacoby, 2002: 149)
for Europe at large, a must for the operation of the impurity principle in the long term, has been of no immediate concern for any of the parties concerned.

Schumpeter was concerned with the comparison of capitalism and socialism of his blueprint and foresaw a reduction of uncertainty in favor of the latter. The fact that the picture we see of the last days of actually existing socialism in USSR and Eastern Europe contradicts Schumpeter should not be used to discredit his scholarship but be credited to the gap between the blueprint and the practice that he was well aware of. In contrast to Schumpeter who focused on the transition from capitalism to socialism, we are concerned here with the transition-in-reverse from socialism to capitalism, therefore, comparison is to be made between the levels of uncertainty corresponding to socialism and post-socialism. Because socialism inhabits less uncertainty than capitalism no matter how deviant the reality may be from the blueprint, the degree of change is likely to be all the more drastic. No wonder why it has been asserted that there exists definitely a “loss, in terms of past certainty” (Pine & Bridger, 1998: 7) and “daily life under postsocialism is beset with uncertainty” (Burawoy & Verdery, 1999: 7). In fact, one strong argument in favor of a ‘big bang’ mode of transition as advanced by Leszek Balcerowicz, Poland’s shock therapist and former Minister of Finance, has been to reduce radical uncertainty by irreversibly launching these countries on a new path-dependence (Amsden, Kochanowicz & Taylor, 1994: ix). It should be no surprise that many countries chose to escape this uncertainty-ridden environment by anchoring themselves into the orbit of a larger economic unit such as the EU that has its own dynamics of ‘normal’ uncertainty.

**Squaring the Circle: Fernand Braudel’s Notion of a Limited Transition**

Fernand Braudel has been easily overlooked within the context of transition debates because his seminal work covers early modern history (15th-18th century). But Braudel approached early modern history in order to better understand the trends and prospects of his day. As such, he did not refrain from reflecting upon issues of direct relevance for our purpose. Having lived much longer than either Schumpeter or Polanyi, he had ample

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61 According to Bruadel, this was not only his personal motivation but an intrinsic property of history as he expressed at the very conclusion of his *magnum opus*: “is it not the secret aim and underlying motive of history to seek to explain the present?” (Braudel, 1984: 618)
opportunity to observe and assess the developments that preceded the transition-in-reverse. For example, while discussing the periodic resurgence of peddling activity on the fringes of undeveloped market contexts, Braudel referred to a firsthand observation about Soviet Russia:

So too are the picturesque Georgian and Armenian peasants, with their sacks of fruit and vegetables and live fowls in string bags, who are tempted by the low fares on the internal Soviet airlines to go as far as Moscow. (Braudel, 1982: 80)

By so doing, he touched upon the theme of distorted relative prices in effect in the Soviet economy. Precisely because of such centrally administered illogical pricing, economic agents were conveyed ‘wrong’ messages which they interpreted correctly from their point of view and perfectly rationally acted upon. However, when the whole system of relative prices thereby becomes an illegible language, it cannot be piecemeal corrected and one has to shift abruptly from one set of prices to another one that is entirely different, as was demonstrated during the painful experience of transition-in-reverse.

Given his insistent preference in favor of the longue durée, Bruadel’s contribution materializes in his tripartite schema, with capitalism on the top, market economy in the middle, and ‘stratum of the non-economy’, that is, material civilization as manifest in the structures of everyday life, at the bottom. This triptych was first developed with specific reference to early modern period (15th-18th century) and then generalized so as to cover the contemporary world (Braudel, 1984: 630). It is in relation with this issue that he expressed his fundamental difference from Lenin as well as John Kenneth Galbraith. Where others saw novelty, he discovered continuity:

Galbraith talks about ‘the two parts of the economy’, the world of the ‘thousands of small and traditional proprietors’, (the market system) and that of the ‘few hundred . . . highly organized corporations’ (the industrial system) Lenin wrote in very similar terms about the coexistence of what he called ‘imperialism’ (or the new monopoly capitalism of the early twentieth century) and the ordinary capitalism, based on competition, which had, he thought, its uses.

I agree with both Galbraith and Lenin on this, with the difference that the distinction of sectors between what I have called the ‘economy’ (or the market economy) and ‘capitalism’ does not seem to me to be anything new, but rather a constant in Europe since the Middle Ages. There is another difference too: I would argue that a third sector should be added to the pre-industrial model—that lowest stratum of the non-economy, the soil into which capitalism thrusts its roots but which it can never really penetrate. This lowest layer remains an enormous one. Above it, comes the favoured terrain of the market economy, with its many horizontal communications between the different markets: here a degree of automatic coordination usually links supply, demand and prices. Then alongside, or rather above this layer, comes the zone of the anti-market, where the great predators roam and the law of the jungle operates. This—today as in the past, before and after the industrial revolution—is the real home of capitalism. (Braudel, 1982: 229-30; emphases added)
He associated this triptych, with the different floors of a house (Braudel, 1981: 562), but we believe the metaphor of a pyramid serves the purpose better when the relative sizes of the components are also taken into consideration.

The medium level of this building, the most ‘sunlit’ of all (Braudel, 1981: 24), consists of the ‘market economy’ on which most attention, but especially that of economists, has been focused (Braudel, 1981: 23). This level is characterized by the existence of numerous buyers and sellers, the clarity of transactions, the recognition and observance of the rules of game, and the persistence of the principle of competition. This is a highly dynamic zone. It is the zone of liberty. Market emancipates its participants. However, this much ado amounts to little when it comes to affecting the long-term course of things.

Below, the medium level, Braudel identified another that he labeled as ‘material civilization’ constituting a kind of ‘infra-economy’. This is the ‘shadowy zone’ of everyday life (Braudel, 1981: 23-4). It is characterized by very slow change; it stands for slow progress if not inertia, and acts as a brake by imposing the limits of the possible upon the socio-economic system (Braudel, 1981: 27). This is the zone where the tyranny of ‘routines’ (Braudel, 1981: 562) prevail over fresh-air bringing novelties, and where the principle of subsistence supported by barter of goods and services reigns supreme (Braudel, 1981: 24).

On the other side of the market economy, that is the highest floor, Braudel places ‘capitalism’. This ‘second shadowy zone’ (Braudel, 1981: 24) is distinguished from the market insofar as it is not transparent but opaque; it is the exclusive domain of the few privileged predators rather than the many small firms. It has its own code of conduct that remains a secret of trade to those excluded. Rather than obeying explicit rules that economic science has elaborated, these few choose to bend and occasionally even break the rules of the market economy according to their interests (Braudel, 1982: 400-1), and by so doing, they “manipulate exchange to their advantage and disturb the established order.” (Braudel, 1981: 24) Because of this, this layer is a highly dynamic, yet quite unpredictable zone. It is the domain of power *par excellence* (Braudel, 1982: 22). Placed on top of things, here the capitalists enjoy a broader field of vision; thus they are better informed. Their power implies that they are also free to choose; that is “the chief privilege of capitalism” (Braudel, 1984:

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62 “The market spells liberation, openness, access to another world. It means coming up for air.” (Braudel, 1982: 26)
The choices they indulge in are of a major kind. Hence, they become the catalyst of large-scale change. This zone is identified with its exclusive association with the institutions of money and finance.

If one principle were to summarize this highest domain, it would be ‘monopoly’. Braudel’s definition of capitalism is much more restricted from commonplace definitions. It is restricted in the sense that it covers a very small part of the total socioeconomic space. On the other hand, in comparison with commonplace definitions that focus rigidly on the use of wage-labor (mostly) in industrial production, Braudel’s definition emphasizes the flexibility, adaptability, and versatility of capitalism to the circumstances and contexts (Braudel, 1984: 622). This dissociates it from any one-to-one mapping between forms of capital and stages of development as would befit, merchant, industrial, and finance capital corresponding with the mercantile, industrial, and financial capitalism respectively, the last being supposedly the highest stage (Braudel, 1982: 433; 1984: 621). This makes capitalism far more general. Given this further attribute, in inverse proportion to its size, capitalism is extremely influential. The most original aspect of Braudel’s contribution is the distinction he maintained between capitalism and the market. In fact, he went beyond distinguishing the two: He associated each with a different principle, the former with monopoly and the latter with competition, and he deliberately counterpoised them. He went as far as to argue that capitalism was in fact ‘anti-market’ (“le contre-marché”; Braudel, 1985: 33).

From the above description of the tripartite schema, it is obvious that Braudel revealed a preference for the market and an antipathy towards capitalism. The following question comes to mind naturally: Can one replace capitalism with socialism and yet preserve the market economy (and material life)? This provides us with the real coordinates of the ‘transition’ question that the tripartite schema illuminates. It has a further implication; this kind of a ‘limited transition’ is bound to change much less than that is usually expected, but

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63 In contemporary literature on ‘comparative economic systems’ approach to the issue of capitalism-versus-socialism, a much emphasized point has been that this was essentially a comparison of otherwise incomparables because socialism has had a limited experience for less than a century whereas capitalism has been around for several centuries. There is truth in this, but we should not overlook that those who have fostered such horse-race type race based comparisons rely on a very simple notion of capitalism that is symmetric with and comparable to that of socialism. It is only the works (Aymard, 1999: 31, 34, 39-41; Beaud, 1999: 250-1) that bear the influence of Braudel take capitalism’s historical dimension, plasticity, creativity and incessant dynamism into account. When comparisons are made with asymmetric conceptions of capitalism and socialism in this way, far from being unfair and counterproductive, they help draw important conclusions.

64 “En fait, je crois aux vertus et à l’importance d’une économie de marché, mais je ne crois pas à son règne exclusif.” (Braudel, 1985: 48-9)
also much more, albeit in some specific respects, than what had been accomplished under the socialist experience:

‘Tradition and previous generations’, Marx wrote, ‘weigh like a nightmare on the minds of the living’—and not only on the minds, on the very existence of the living too, one might add. Jean-Paul Sartre may have dreamed of a society from which inequality would have disappeared, where one man would not exploit another. But no society in the world has yet given up tradition and the use of privilege. If this is ever to be achieved, all the social hierarchies will have to be overthrown, not merely those of money or state power, not only social privilege but the uneven weight of the past and of culture. The experience of the socialist countries proves that the disappearance of a single hierarchy—the economic hierarchy—raises scores of new problems and is not enough on its own to establish equality, liberty or even plenty. A clear-sighted revolution, if such a thing is even possible—and if it were, would the paralysing weight of circumstances allow it to remain so for long?—would find it very difficult to demolish what should be demolished, while retaining what should be retained: freedom for ordinary people, cultural independence, a market economy with no loaded dice, and a little fraternity. It is a very tall order—especially since whenever capitalism is challenged, it is invariably during a period of economic difficulty, whereas far-reaching structural reform, which would inevitably be difficult and traumatic, requires a context of abundance or even superabundance. (Braudel, 1984: 628; emphases added)

A replacement of capitalism by socialism at the top would have left majority of people who recourse to market on a regular basis untouched, as well as leaving most structures of everyday life intact. If we approach the record of real socialism in light of Braudel’s schema, a number of observations become inevitable. First of all, transition to socialism was artificially overstretched. Far from replacing (a very fragile and immature) capitalism with socialism, the political authorities replaced the ‘monopoly of capital’ with the ‘monopoly of state’ and sought to abolish the market sphere and bring it under command. Braudel observed:

Over enormous stretches of the planet inhabited by millions of people, socialist economic systems with authoritarian price control have put an end to the market economy. Where it still survives in such countries, it had to compromise and confine itself to small-scale activities. (Braudel, 1982: 229; emphasis added)

Braudel was a vehement critic of any policy that sought to displace the vital grassroots sources of market economy:

There could be no more dangerous policy. This is to repeat in another form the fundamental error committed by socialist countries. Read what Lenin wrote: ‘Small-scale commercial production is, every moment of every day, giving birth spontaneously to capitalism and the bourgeoisie. . . Wherever there is small business and freedom of trade, capitalism appears’. He is even supposed to have said: ‘capitalism begins in the village market-place.’ His conclusion was that in order to get rid of capitalism, its very roots that is, individual production and the freedom of trade had to be dug out. Are Lenin’s remarks not in fact a homage to the enormous creative powers of the market, of the lower storey of exchange, of the self-employed artisan or even of individual resourcefulness—creative powers which provide the economy not only with a rich foundation but with something to fall back on in times of crisis, war, or serious economic collapse requiring structural change? The lowest level, not being paralyzed by the size of its plant or organization, is the one readiest
to adopt; it is the seedbed of inspiration, improvisation and even innovation... (Braudel, 1984: 631; emphases added)

With the second phase of socialism, as of the 1930s, instead of taking lessons from experience and withdrawing from the market zone to the commanding heights, the wrong lesson was actually drawn, and command economy was forcefully extended into the zone of material life, the most difficult of all to conquer. Agricultural collectivization and the pursuit to eliminate kulak farmers in the countryside disturbed millions of peasants who constituted the bulk of the population and led to a grotesque failure in the long term.65 A. V. Chayanov, the Russian agriculturalist economist well-versed in rural statistics, had demonstrated the viability of peasantry in the face of economic and climatic crises because family farms could outperform large-scale capitalist—or for that matter collectivist—farms because of their ability to use their resources flexibly and exploit themselves voluntarily more than anyone else could (Chayanov, 1986: 89). Moreover, numerous peasants were practically impossible to regulate and coerce, whereas they were naturally well-equipped to exploit themselves voluntarily much better than any agency could possibly do. Even so, the Soviet regime insisted on embarking upon this wrong course for the sake of creating ‘factories without chimneys’, in the form of collectives, in the vast countryside.

65Schumpeter warned time and again that a socialist authority should have “sense enough to leave peasants or farmers alone” (Schumpeter, 1950: 226) and exclude agriculture from the scope of central planning: “Our socialism would still be socialism if the socialist management confined itself to a kind of agrarian planning that would only in degree differ from the practice that is already developing. Settling a plan of production; rationalizing location (land use); supplying farmers with machinery, seeds, stock for breeding purposes, fertilizers and so on; fixing prices of products and buying them from farmers at these prices—this is all that would be necessary and yet it would leave the agrarian world and its attitudes substantially intact.” (Schumpeter, 1950: 203). As for a policy proposal for agriculture within the context of socialization in a state of maturity, Schumpeter made a comparison with the Russian example: “To begin with, we will simplify the transitional problems before the new ministry or central board in the same way in which we have already simplified their permanent problems, i.e., by assuming that they will leave farmers substantially alone. This will not only eliminate a difficulty that might well prove fatal—for nowhere else is the property interest so alive as it is among farmers or peasants; the agrarian world is not everywhere peopled by Russian peasants—but also bring additional support, for nobody hates large-scale industry and the specifically capitalist interest as much as the farmer does.” (Schumpeter, 1950: 221) As a matter of fact, Russian peasants had been turned into revolutionaries by the wrong policies of the tsarist autocracy in the first place: Unlike in any other country, there was little successful capitalist agriculture in Russia, even on large estates. Only the Russian peasantry resisted modernization, simply demanding land, refusing to sever communal bonds, both before and after 1917. Russian peasants wished to remain apolitical, but they were forced by the regime into self-defense through revolution.” (Mann, II, 1993: 715) “The demands of the Russian peasantry were brutally simple: to get rid of the landlord, divide up the land, and of course stop the war.” (Moore Jr., 1966: 481). The peasant input to the social revolution was of utmost importance and it was no surprise that the peasants would become true beneficiaries of the revolution once it succeeded (Skocpol, 1979: 128-40). However, the wrong policy of the Soviet government once again turned them into enemies of the state of things. In a way, the second wave of the revolution was in this sense a ‘counter-revolution’ against the peasantry.
This is also the critical step responsible with its butterfly-effect for, why a phenomenon, which should have remained as a transition because of the global constraints in place as well as structural immaturity involved, came to resemble more closely a transformation, because it left virtually no sphere of socioeconomic system untouched and affected the existent class structure thoroughly as if a transformation had actually taken place instead. Too much had been changed for too little. Written shortly after the Prague Spring, Braudel’s lines resonate the lessons of socialist economies for an alternative ‘transition’:

Finally, if we are prepared to make an unequivocal distinction between the market economy and capitalism, might this offer us a way of avoiding that ‘all or nothing’ which politicians are constantly putting to us, as if it were impossible to retain the market economy without giving the monopolies a free hand, or impossible to get rid of monopolies without nationalizing everything in sight? The programme proposed by the ‘Prague spring’—socialism at the top, but freedom and ‘spontaneity’ at the base—was put forward as a double solution to a double and unsatisfactory reality. But what kind of socialism will be able to maintain freedom and mobility of the individual enterprise? As long as the solutions put forward amount to replacing the monopoly of capital with the monopoly of the state, compounding the faults of the former with those of the latter, it is hardly surprising that the classic left-wing solutions do not arouse great electoral enthusiasm. If people set about looking for them, seriously and honestly, economic solutions could be found which would extend the area of the market and would put at its disposal the economic advantages so far kept to itself by one dominant group in society. (Braudel, 1984: 632; emphases added)

The fact that the actual transition to socialism went overboard had important implications for the transition-in-reverse. First of all, the reform efforts to reintroduce market into the socialist system remained highly artificial because the social and economic fabric was thoroughly affected. Secondly, because change could not be accommodated within the existing institutional setup, the road was wide open to an equally discontinuous and large-scale transition-in-reverse. This is why, when it came to postsocialist transition, those professing to engineer the transition ended up tilting the balance in favor of capitalism at the expense of the market. Whereas Soviet Russia thus became the hotbed of criminal corruption and natural-resource based rentier capitalism, the greater part of Eastern Europe narrowly, if not temporarily, escaped a similar fate by opting for European integration. This latter choice can aptly be summarized as crash-landing into the European integration project already under way.
Conclusion

The most important single lesson we can surmise from Polanyi’s analysis is that ‘transition’ means less than a ‘transformation’. Polanyi associated his notion of ‘transformation’ with the idea of a ‘metamorphosis’ when he discussed the historical origins of the modern market economy. As we have seen above, he had in mind as metaphor the biological metamorphosis of the caterpillar into a butterfly. The first and foremost implication of this analogy is that it involves the ‘Time’s Arrow’ and thereby underscores irreversibility, as no one has so far observed a butterfly to metamorphose into a caterpillar. In discussions of the postsocialist passage, to the best of my knowledge, at least two allusions have been made to the metaphor of ‘metamorphosis’ as a distinguishing attribute of the process(es) under way, the latter being carried to the subtitle of the book (Chavance, 1999: 301; Pagé and Vercueil, 2004). This is a most useful associate concept or an attribute to keep in mind when characterizing processes as ‘transformations’.

Schumpeter’s most important single contribution from the viewpoint of this paper is his pursuit of the theme of uncertainty in developing his balance-sheet of comparative economic systems. This theme provides us with a springboard for delving into the questions of agency behavior in times of excessive uncertainty. It is after all by differential individual responses to the same uncertain environment that new capitalists have been made overnight during the postsocialist transition. Braudel has taught us that capitalists are main beneficiaries of uncertainty because they can make multiple uses of it whereas others remain virtually ‘illiterate’, when faced with it. Postsocialist transition has demonstrated that there is further twist to the relationship between capitalists and uncertainty. Uncertainty makes capitalists out of a select number of humans. Hence uncertainty fosters capitalism. Excessive transitional uncertainty is also responsible for the social costs of exclusion as expressed in widespread impoverishment.

66 “La transformation systémique du capitalisme en socialisme, ou vice-versa, est fondamentalement un vaste processus du métamorphose, au niveau des catégories générales comme la monnaie, le salaire, le profit et le capital.” (Chavance, 1999: 301) The concept of metamorphosis seems better suited here when applied to the level of categories.
67 The belief that markets engender capitalism, which Lenin expressed and Kornai (1999: 327) would rather not leave orphan, is a distorted expression of this process. Uncertainty is the privileged domain of capitalism in contrast to markets that organize and convey relatively transparent information.
Uncertainty has been an important factor in deterring some analysts from using the concept of ‘transition’ and justifying their preference for ‘transformation’ by claiming whereas the first has a predetermined endpoint, the latter leaves the process(es) under way open ended (Chavance, 1994: 155; Pagé and Vercueil, 2004: 15). There is a grain of truth in this. However, when we look back from where we are, we see things somewhat differently from those who made their observations during the early years of transition. Our advantage is not only because of time difference but also due to the awareness we gain by virtue of Braudel’s triptych which helps reduce this excessively radical uncertainty. In retrospect, we remind ourselves that the endpoint of the postsocialist transition was postulated as the attainment of market economy. If we remind ourselves that state was previously inefficiently overgrown and inertia-ridden, that markets survived against all odds and under most inhospitable circumstances, by becoming ‘black’ when necessary, and efforts at reforming the socialist economic system from within have all sought ‘to bring the market back in’, it seems likely that any transition, if unblocked, was going to end up with a market economy. What was uncertain was how, and whether and to what degree, this market economy would be instituted and integrated with other forms of economic and social organization. Time has shown us that the endpoint has been lopsided in favor of ‘capitalism’ at the expense of ‘market,’ in the determination of the relative shares of capitalism and market in Braudel’s tripartite schema. As such, critics inspired by Braudel as well as Polanyi (Chavance, 1994: 158), who saw the advance of capitalism where others anticipated market growth have been proven correct. But then, does not capitalism usually hide its face conveniently behind the more popular mask of the market?

Even so, we need to make a further elaboration at this stage. All along this paper, we have spoken of a transition between capitalism and socialism, and vice versa—as manifest in our choice of the term ‘transition-in-reverse’ for the sake of convenience. We also chose as an epigraph Polanyi’s statement that choices concerning the rate of change, when the direction of change is no longer a matter for choice, can be immensely important from the viewpoint of reducing the social costs of transition. In the course of the discussion we saw that, during the transition, because of institutional pollution, rigidities, interlocks and misfits, interim solutions to economic and social ills might not be feasible. As we have seen, a case for shock therapy and abrupt change has been made on that basis. Economists of the better kind have had always second thoughts, all the more reinforced by a close observation of transition unfolding in front of their eyes (Chavance, 1994: 166-7, 185, 194), 214; Pagé and Vercueil,
There may have been a politically motivated exaggeration in this respect, with deliberate undervaluation of capital stock inherited from socialist economies, in order to garner popular support for quick implementation of standard economic prescriptions. Much of existing capital has thus been devalued and pillaged by the more privileged few. The comparisons and contrasts that served this purpose of degrading existing capital stock as useless have been made in East Europe vis-à-vis West Europe. However, in retrospect, another set of comparisons with developing countries that were caught in the balance-of-payments crisis of import-substituting industrialization seems as more informative. In Latin America, India, and Turkey, public sector, wherever possible, has been successfully restructured and reoriented to export markets. Had a policy like this been adopted in East Europe, perhaps economic depressions and outright massive layoffs could have been reduced significantly. Be that as it may, Braudel’s lesson implies that where Time’s Arrow makes a difference is the relative placement of capitalism within the triptych. As for the capitalism as content, Time’s Arrow also makes a difference. Because of historical heritage, memory and the learning processes of agents, where you come from makes a considerable difference in where you end up. In this sense, no matter how much institutional mono-cropping has been imposed by the World Bank, IMF and EU, or institutional mimicking voluntarily undertaken, the lessons of past experience will seek themselves niches in alternative policy programs (Brus and Laski, 1999) as well as in the likelihood of an ‘emergent post-socialist capitalism’ (Magnin, 1999). Fortunately for itself, capitalism has always been adaptive and receptive to diversity. What is important for us here is that, because history and institutions matter, capitalism at the end of the road cannot be the same as the one we began with, and hence transition can never be fully reversible, except in certain subservient respects.

Braudel referred to capitalism as the evening visitor (le visiteur du soir) who came late and only after everything was put into order (Braudel, 1985: 78). It was bound to leave sooner or later; hence follows Braudel’s argument that capitalism is in essence conjuncturelle (Braudel, 1985: 65). By implication, socialism would, if at all, come even later, hence be a late night visitor, if not an outright midnight one, and would force itself upon the host to stay overnight, if not for good. Socialism in Soviet Russia and Eastern Europe came too hastily before capitalism could leave of its own accord. Having come too early, this socialism could not stay as long as it wished and had to leave, much against its wishes, before the night was due. By the time it left, it had already lost much of its charm (Braudel, 1984: 626) in order to qualify for another visit by invitation. It had become apparent, according to Braudel, that
socialism did not differ much from capitalism insofar as leaving intact the very hierarchy that characterized societies and made them far less attractive to the distant and detached observer.

At this point, if we remind ourselves that Polanyi had also forewarned us of the danger that socialism could collapse into fascism if it could not handle the delicate question of individual rights and liberties, and Schumpeter had concluded that ultimately socialism could have much more in common with fascism then its founders originally intended, we have every reason to emphasize the bleak picture we are faced with. Braudel also pointed in the same direction:

> While western capitalism is undoubtedly going through a period of uncertainty and crisis, I do not believe that it is on the point of collapse. It no longer, admittedly, excites the admiration which Marx himself could not help feeling for it; nor is it viewed, as it once was by Max Weber or Werner Sombart, as the culminating stage of a long development. But that does not mean that any system which might replace it in some relatively smooth evolution might not turn out to be strikingly similar.

(Braudel, 1984: 626; emphasis added)

Braudel was first and foremost the historian of the longue durée, and to grasp the lasting relevance of the transition-versus-transformation problem as well as how the transition and transition-in-reverse connect with each other over time, he provided us with a much more cinemascope view of space and time. Socialism is déjà vu only when approached in a myopic manner. From the perspective of the very long term, Soviet-type socialist experience might only be a premature figuration of what may be yet to come. If so, with the shadow of a global empire cast upon us all, that in many ways would resemble a fusion of the fascist and socialist blueprints, we have every reason to suspect that what we have so far witnessed in Soviet Russia and Eastern Europe may in fact be a sneak preview of what is yet to arrive, this time, by way of advanced capitalist economies as the Founding Fathers of socialist thought once aspired. That the next likely visit may take place on the right time and occur on a global scale so as to force its way on us for a long stay in a “polar night of icy darkness” (Weber, 1991: 128) should not at all escape us.

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68 Schumpeter had also observed the “family likeness between commercial and socialist economy” and associated it with the logic of choice that inevitably provided a basis for the rationality of either blueprint (Schumpeter, 1950: 181-2). If fascism was an aberration of capitalism based on the blueprint of commercial society, than deviations from the socialist blueprint could as well converge with it. An emphasis put on the theme of comradeship, so dear to both socialism and fascism, defines that of the latter as “comradeship in submission” (Moore Jr., 1966: 447). After the fact, we know that under socialism, comradeship was brought under the authority of submission.
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