

## THE MINIMAL POLITICS OF MARKET ORDER

*James M. Buchanan*

The economic progress of the twentieth century has fully confirmed that only a market economy is capable of ensuring high efficiency in national economy.

—Leonid Abalkin<sup>1</sup>

### Introduction

The basic meaning of Abalkin's statement, which I have used as my opening citation, is clear. As I have put the same point elsewhere, there is now general agreement that the market economy works better than the socialist or centrally directed alternative. Further, we now agree on what is meant when we say that an economy "works better." Such an economy produces a larger bundle of goods and services, as measured by the evaluations of persons who consume them. The economy organized on market principles produces more value than an economy organized on nonmarket principles.

Abalkin refers to "efficiency" in the production of value. A market economy is relatively more efficient for three reasons: It makes the incentives of participants compatible with the generation of economic value; it exploits fully the localized knowledge available only to participants in separated decentralized circumstances; and it allows maximal scope for the creative and imaginative talents of all participants who choose to act as potential entrepreneurs.

I shall not discuss these familiar, and now acknowledged, characteristics of a market economy further. My purpose here is to suggest that over-attention to, and over-concentration on, the efficiency generating features of the market economy may prompt neglect of the

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<sup>1</sup>Abalkin (1990, p. 6).

closely related corollary feature that is equally, if not more, important. The economy that is organized on market principles effectively *minimizes* the number of economic decisions that must be made *politically*, that is, through some agency that acts on behalf of the collective unit. In practical terms, we may say that an economy organized on market principles minimizes the size and importance of the political bureaucracy. If he had chosen to emphasize this feature rather than efficiency, Abalkin could have said: "The logic of the structure fully confirms that only a market economy is capable of allowing for a minimal politicization of the national economy." And should he have wanted to extend this statement, he might have added: "And only through such minimization of politicization-bureaucratization (or at least through some reduction) could meaningful individually based social objectives be secured, whatever these objectives might be."

In the second section of this paper, I shall describe the relationship between politicization and market organization as I develop the distinction between political pricing and market pricing. In the third section, I shall discuss the implications of political pricing for the whole set of relationships among citizens and groups of citizens in an economy. The analysis, which uses modern contributions of public choice theory, identifies sources of possible waste of economic value, as well as circumstances where persons are placed in dependency status in confrontation with others. The normative implications are evident. The fourth section discusses the necessary role of political or collective action in the design, construction, implementation, and maintenance of the structural framework within which any market economy is allowed to function. Collective choice among alternative sets of rules is required, but any such choice is constrained by feedbacks from value generation and from bureaucratic intervention. In the fifth section, I shall return to the distinction between political price and market price to illustrate how possibly agreed on "social" objectives might be advanced without overt politicization of markets. I shall also introduce the notion of a politically influenced market price, and I shall demonstrate the limits of applicability. The final section presents conclusions.

## Political Price and Market Price

A characteristic feature of socialist regimes involves the use of politically determined prices for selected goods and services, presumably motivated by both distributional and paternalistic considerations. The goods and services so selected are made available to

consumers at demand prices that reflect political judgments rather than the results that emerge directly from the interaction of demand and supply. The listing of such goods and services is empirically familiar: medical services, educational services, child care, urban transport, housing, milk, bread, and so forth. Some or all of these selected goods or services are made available to consumers or users at prices below those that would be established by market forces.<sup>2</sup>

Consider a single and highly simplified example. Suppose a collective political decision is made to supply bread to consumers at a price of zero, which may be called a "political price" because it is divorced from any relation between costs of production and demand. If political action is limited to an announcement of this political price, the response is readily predictable. Potential consumers will demand large quantities of bread at the zero price, and there will be no potential suppliers willing to put bread on the market at that price. Political decisionmakers who initially try to meet potential consumers' demands must direct large quantities of resources into bread production, either by direct requisition or by some scheme for subsidizing potential suppliers. That is, even if sufficient bread is available to meet all demands at the artificial political price, some additional political action must be taken, over and beyond the setting of price itself, to make the pricing operational. Resources must be drawn from other uses into bread production, and demanders are encouraged by the artificially low price to use bread wastefully. (The illustration from Soviet experience that is often adduced here is the story of peasants feeding bread to cattle.)

As noted earlier, however, I do not want to stress the wasteful or efficiency-reducing effects of political pricing. Let us heroically assume, therefore, that political decisionmakers, the planners who act on behalf of the collectivity, direct resources into bread production in some rough approximation of the quantity that would be forthcoming under market pricing. This combination of zero-demand price, along with roughly optimal supply, will ensure the presence of two results: There will be an excess demand for bread, and the costs of producing and supplying that quantity must be financed from sources other than people who consume the bread. Political decisions and political actions are required on two institutional dimensions over and beyond the setting of price.

<sup>2</sup>Administrative inefficiencies in distribution may, of course, be so large as to make the inclusive prices for such goods higher than free-market prices, despite the intent of planners.

We can compare such a regime of political pricing with a regime of market pricing by supposing that there is no politicized interference with the market for bread; thus the price is allowed to emerge from the interaction of demand and supply. In this setting, suppliers and producers may offer bread to prospective purchasers on terms of their own choosing, and potential consumers may choose to purchase or not, in whatever quantities they choose. We know that in this setting roughly the efficient supply of bread will be placed on the market ("efficient" as measured in terms of the value scales of demanders throughout the economy). In addition, under this regime of market pricing, the two results emphasized as characteristic of political pricing will be absent. There will be neither an excess nor a deficient demand for bread; there will be neither an excess nor a deficient supply of bread. And there will be no requirement that other persons in the economy, other than bread consumers, must finance the production of bread. The political decisions involved in (a) setting the political price, (b) allocating the available supply among potential demanders, and (c) financing the production of the available supply are unnecessary under the market pricing regime.

There are, of course, distributional differences between the two regimes. Those consumers who succeed in getting bread at zero price under the political pricing regime may be better off than they would be under the market pricing regime. (Although they need not be better off when the full price, including time in queues, is taken into account.) But these possible gains to consumers are fully offset by losses suffered by whomever in the economy must finance the supply that is made available. Political pricing must, in some sense, embody value transfers between users and nonusers of the goods that are politically priced. By contrast, no across-market transfers need take place under market pricing.

### Political Pricing, Bureaucratic Discretion, and Social Waste

Market pricing incorporates two important coordinating functions that political pricing fails to perform. The available supply is rationed among potential demanders, and the quantity supplied is brought forth to meet the potential demand. If political price is set lower than market price, some means of rationing other than price must be brought into being, unless supply is adjusted to meet whatever demand emerges. In that case, massive waste of economic value must ensue.

Under excess demand conditions, nonprice rationing may take any one of several forms, singly or in combination. Available supplies may be allocated by some explicit rationing mechanism, for example, by issuing ration coupons that are required for purchase. Or rationing may be accomplished by some variant of a first-come, first-served scheme that involves waiting periods and long queues in shops. Or, finally, the people who control access to supply may ration goods through private pricing. In each scheme emerges a necessary role for a bureaucratic agency that market pricing would make redundant.

Similar implications for the necessity of a bureaucratic agency emerge when we examine supply-side coordination. If voluntary adjustment to market-related supply price is not allowed to take place, producers must, somehow, be encouraged to bring forth the politically chosen quantity of goods. Production may be directly organized through state enterprise, or private suppliers may be subsidized. In any case, some collection of revenues from other sources in the economy is required, collection that, again, depends on bureaucratic agency. Or production may be directly requisitioned, in which case suppliers must be subjected to coercive bureaucratic command.

Political pricing requires an extended supplementary bureaucratic agency to achieve plausibly meaningful coordination of objectives. Individual citizens, not only as demanders and users of the economy's end items but also as suppliers of the inputs that are combined to produce such items, are necessarily subject to the discretionary direction of the bureaucratic agency to an extent not present under market organization. This dependency of the citizen on bureaucracy exists quite independent of personal behavioral characteristics of people in bureaucratic roles. Even if all those bureaucrats should behave ideally in terms of widely shared criteria of fairness, the dependency relationship continues to exist.

As modern public choice theory suggests, however, bureaucratic agents are not likely to be different from other persons in the community; at least, models of behavior should not be constructed that presume totally different behavior. The bureaucrat will, as will others, seek to maximize his or her utility subject to the constraints that are faced. And because the institutional structure under a regime of political pricing places other persons in a dependency relationship, the bureaucrat can scarcely be expected to refuse, deliberately, to exercise this power of discretion so as to maximize his or her own utility. Favoritism, discriminatory treatment (both positive and negative), and arbitrary classifications—these features are almost necessary characteristics of any system that places people in dependency

relationships with bureaucrats who are living, breathing human beings.

These characteristics will be present in regimes of political pricing even if there is no corruption in the ordinary meaning of the term. Bureaucrats who possess discretionary authority to allocate or distribute access to economic value will, of course, have opportunities for pecuniarily beneficial trades for the simple reason that the allocative-distributive authority itself has value. And there is surely some positive correlation between opportunities for, and the exploitation of, gain.

But the problems of bureaucratic discretion do not lie exclusively, or even primarily, with bribery. First, these problems exist because of bureaucratic discretion itself, which implies that choices must be made among claimants on some basis other than economic value. In this respect, the introduction of bureaucratic discretion made necessary by political pricing becomes a source of the relative inefficiency of the whole structure. Second, the dependency relationship introduced between those persons who hold discretionary authority and those who are subject to that authority creates arbitrary class distinction. Third, and perhaps most important, the artificially created scarcities under political pricing become objects of socially wasteful investments. People find it privately rational to invest resources in efforts to secure differentially favored access to the economic power inherent in bureaucratic discretion. This rent seeking on the part of those who compete for the scarce access to valued goods (such as those who demand bread at the zero price) represents wasteful investment on the part of all people who are unsuccessful in the competitive effort.

There should be little or no dispute concerning the positive analysis of effects of political pricing on the size, range, discretionary limits, and secondary behavioral repercussions of bureaucratic agency. There are no normative implications to be derived directly from the analysis, as such. Nonetheless, to the extent that analysts and observers can agree that these effects are, in themselves, undesirable characteristics of political pricing regimes, the relative advantages claimed for such regimes in comparison with market pricing regimes are reduced in significance. The minimization of politicization-bureaucratization of economic interaction, which market pricing makes possible, must be reckoned to be a relevant factor in the ultimate comparative judgment over and beyond the closely related and more familiar argument from efficiency.

### The Political Constitution of Economic Order

Until now, I have referred to regimes of political pricing and market pricing without direct mention (other than in my introduction) of

the constitutional structure that defines the framework within which any regime of economic interaction operates. It is important to emphasize that political or collective action is necessary in establishing and maintaining the regime's structure, under any and all circumstances. The minimization of the range and scope of bureaucratic discretion, discussed in the previous two sections, refers exclusively to the setting for economic interaction within the structure of rules, that is, within the constitution of the economic order. As the analysis suggested, market pricing tends to minimize bureaucratic discretion relative to that which is required under political pricing. But market pricing will function effectively only within a set of framework rules that must, themselves, be established or maintained collectively. At the level of constitutional choice, there is no escape from politicization.

I shall limit my discussion to an outline of those features of constitutional structure that will allow market pricing to emerge and to function. I shall not discuss how the basic constitutional choice among sets of rules is made. First, there must be a dispersed and decentralized distribution of the capacities to produce economic value, along with an explicit political and legal acknowledgment of this distribution. Property or property rights, both in human capacities and in nonhuman assets, must be widely dispersed in ownership, and the pattern of ownership itself must be afforded explicit legal protection. Second, private owners must be allowed to exchange owned rights to property among themselves, and there must be political-legal enforcement of voluntary contracts made for the exchange of these rights.

Under such a dispersed, decentralized pattern of private ownership, along with political and legal acknowledgment, protection, and contract enforcement, the basic elements for the constitution of a market regime will be in place. Resource capacities will be allocated among separate possible uses; production will be organized through combinations of productive inputs; and goods and services will be produced, supplied, and priced to consumers who demand them. Nobody in either a private or a political role is directly required to attend to the particular features of the outcome, or pattern of outcomes, of the interdependent market process. This outcome, or pattern of outcomes, will emerge from the interactive, interdependent choice behavior of many persons. The allocative and distributive results will be chosen by no one.

It is precisely at this point that an overemphasis on the efficiency criterion for evaluating the performance of a market economy may be misleading. The efficiency that is, indeed, achieved by market

interaction is, itself, defined by such interaction. The value scale emerges from the market choices made by all participants; such a scale does not exist independently. There need be no relationship between the performance of a market economy and the efficiency relative to a value scale chosen by the planner or political decision-maker. Only if decisionmakers are willing to allow the market itself to define efficiency can Abalkin's statement be valid.

A market order, of sorts, will emerge once the basic elements are in place. But the constitutional structure may be extended to include other rules or institutions that may be expected to facilitate the inclusive exchange process. The political agency, the state, may take on the responsibility of defining the monetary unit for the economic order and may, ideally, seek to maintain stability in the value of such unit. There may also be specialized institutional arrangements aimed at promoting competitive forces, especially those that promote freedom of entry into production and that prohibit cartel agreements. Other collectively consumed or public goods (for example, protection of environmental quality) may be brought within the state's authority, and constitutional rules may be introduced that specify the means through which state supplied goods and services are to be financed.

### Minimal Bureaucratization and the Social Market Economy

Attention to, and emphasis on, the relationship between the coordinating properties of market pricing and the range of bureaucratic discretion have implications for the efficiency of political intervention that may be undertaken in the furtherance of social objectives. Political decisionmakers, either those who act as agents for a ruling elite or those who claim to represent electoral constituencies in democracies, may reject the efficiency norm as defined by operation of the market economy, even if the collectivized sector is extended to include the financing of non-excludable, collectively consumed goods. These agents, for the same distributional and paternalistic reasons that motivated many of the socialist experiments in economic dirigisme, may seek to use political authority to modify, at least in part, the results of the market system.

At the same time, the advantages of market organization both in generating economic value and in minimizing the role of bureaucratic discretion may be accepted. How might the coordinating properties of markets be retained while using political authority to modify the distributive-allocative patterns toward those patterns more desirable to decisionmakers (planners)?

Suppose that the basic structural rules of a market economy are established. Property rights are then decentralized, and voluntary contracts are enforced. Recall my earlier discussion in the second and third sections. If supplies are sufficiently provided to meet all demands at the politically determined demand price that faces potential consumers-users, there is no need for a supplementary rationing scheme. If all supplies offered at the politically determined supply price are taken, there is no need for rationing sales permits among potential suppliers. Price may be used, therefore, both to ration demand and to stimulate supply. But the additional market equilibrium characteristic may be absent. The demand price at which a good is offered to consumers may not be brought into equality with the supply price offered to suppliers. As noted, under any scheme of political pricing, some cross-market transfers of value must take place. If the political decisionmakers encourage market participants to purchase more of a good than their preferences will dictate in an undisturbed market pricing structure, a wedge must be driven between the demand price at which the good is offered to consumers and the supply price that is offered to producers. The demand price must fall below the supply price. Even if these separate prices fully accomplish their rationing function, means must be found to finance the difference.

The political decisionmakers must, in this case, be willing to introduce a wedge of the opposing direction in the market for some other good (or goods). That is, the demand price must be made higher than the supply price in some other market (or markets) to generate the revenues sufficient to finance the subsidy for the favored good or service. As in the first market, prices can be used to eliminate the need for bureaucratic discretion in supplementary rationing roles. But recognition of the across-market transfer of value here suggests that the budget must balance. That is, the revenues collected from the disfavored good must be precisely equal to the subsidies paid to the producers and consumers of the favored good. Production and consumption of one good can be encouraged; production and consumption of the other good can be discouraged. The alleged social objective can be accomplished within the set of constraints imposed by participants' preferences in the economy in their roles as demanders and suppliers of the two goods (or bundles of goods).

#### *A Tale of Bread and Vodka*

The discussion here may be clarified by a simple example. Suppose the political decisionmakers, whoever they may be, modify the allocative and distributive results of the market economy in a specific

way. The declared social objective may be to encourage the production and consumption of bread, to discourage the production and consumption of vodka, and, at the same time, to minimize both efficiency loss and bureaucratic discretion.

Bread production may be differentially subsidized, and vodka production may be differentially taxed. Under such arrangements, both goods continue to be marketed at prices that are politically influenced although they remain, in one sense, market prices. For such a scheme to work effectively, the two sides of the account must balance. Further, the solution must be brought into adjustment with the demand and supply schedules of both goods, as revealed through the independent behavior of demanders and suppliers.

The political decisionmakers cannot simply impose a per unit tax on vodka independent of the per unit subsidy on bread. Given the behavior of vodka demanders and suppliers, any specified tax per unit on vodka will generate a defined revenue total that will be available for subsidizing bread. But the size of the per unit subsidy will depend, in this case, on the behavior of demanders and suppliers of bread. Political decisionmakers cannot simply select any per unit subsidy for bread, if they want to minimize the need for bureaucratic discretion in bread distribution. Conversely, any preselected per unit subsidy on bread will, given the behavior of demanders and suppliers of bread, require a defined revenue outlay. So that this outlay may be financed from the tax on vodka, the per unit size of this tax will be fixed, given the behavior of demanders and suppliers of vodka.

Political decisionmakers might desire many solutions that may simply be inconsistent with the behavior of participants in the economy. For example, revenues required to finance a full subsidy on bread, to allow it to be offered at a zero price as in our earlier illustration, may be beyond the limits that could be generated by a tax on vodka. The demand and supply behavior of participants in all markets, which must be allowed to take place without bureaucratic coercion, will place constraints on the ability of political decisionmakers to modify market results. Within such limits, the structure of market prices may be very substantially modified in presumed furtherance of social objectives.

## Conclusion

In any economy, resources must be allocated and combined to produce useful outputs that must, in turn, be distributed to consumers. An economy that is organized on market principles will accom-

plish this set of tasks more efficiently, more economic value will be generated, than in a centrally directed economy. My purpose has been to emphasize the importance of the corollary feature of the market economy, which relates the organization of the economy to the range of political and bureaucratic discretion. If resources are not allocated and products distributed through the workings of a market system, then the allocative and distributive functions must be performed directly by a political-bureaucratic agency. In this direct and obvious sense, markets, to the extent that they are allowed to operate, constrain bureaucratic intervention into the lives of citizens.

This conclusion does not imply that markets or market organizations eliminate, as if by magic, the elemental constraints imposed by scarce resources. By increasing efficiency in resource use, markets may reduce the severity of these ultimate constraints. Yet the basic limits on resources remain; markets replace the implementation and representation of constraints through coercive intrusion of personalized bureaucracy by the impersonal price structure. The discretionary power or authority of the bureaucrat is replaced by the impersonal authority of prices, with the accompanying differences in interpersonal relationships.

The market order minimizes the range of bureaucratic discretion, but this order operates only within a constitutional framework that must be politically established and sustained. The basic elements—dispersed private ownership of property and enforcement of contracts—are necessary to allow markets to emerge and to generate patterns of outcomes upon which preferences of participants place the highest value, as expressed through market behavior.

Politics, as it operates and no matter how the decision structure may be organized and how decisionmakers are selected, may not willingly confine its activities to establishing and maintaining the constitutional framework. Politicians, both on their own account and as representatives of constituencies of citizens, may seek to modify some outcomes that would emerge from the uncontrolled workings of market process. Many citizens may share in categorizing certain goods as “worthy of encouragement” (sometimes called “merit goods”) and other goods as “worthy of discouragement” (sometimes called “sumptuary goods”). In almost every polity, attempts will be made to modify the results of market interaction to encourage the first set of goods and to discourage the second set.

There are better and worse means of intervening in the workings of markets if minimizing bureaucratic discretion along with efficiency is accepted as a norm. The objectives for a social market economy may be furthered by schemes of appropriately selected taxes and

subsidies that are adjusted to the demand and supply behavior of participants.

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# THE POLITICAL ECONOMY OF TRANSITION TO THE MARKET

*Boris Milner*

## Political Decisions and Market Decisions

It was with great interest that I have read James Buchanan's paper. His subtle, original, and unbiased analysis of the mechanisms of central planning and of the market economy goes far beyond the usual comparisons, not only in its acute relevance but also in the novelty of many of his premises and conclusions.

The basic premise of the paper is an expansive interpretation of the efficiency of a market-type economy. The familiar criteria involving the production of goods (the incentives of economic agents, full use of information in a decentralized system, the room given creative and inventive abilities) are broadened by Buchanan to add and analyze the effect of another factor: the relation between political decisions and market decisions.

It is here, I believe, that the principle he formulates is of fundamental importance:

The economy that is organized on market principles effectively *minimizes* the number of economic decisions that must be made *politically*, that is, through some agency that acts on behalf of the collective unit. In practical terms, we may say that an economy organized on market principles minimizes the size and importance of the political bureaucracy.

This general conclusion is true when all else is equal, when two fully formed economic systems—a state planning system and a market system—function autonomously in parallel ways, each within its own regime and its own established rules of behavior.

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## Transition from Plan to Market

But there is probably a need for additional analysis of *transitional regimes*, of the establishment and development of one system through the removal of the functional mechanisms of the other. It is here that a number of characteristic features and specific qualities of the period of transition to the market, which our economy is now undergoing, deserve to be taken into account.

The first characteristic is the uniqueness of the transition itself; hence, we have the lack of theory and procedure for transitional states, and the impossibility of learning directly from accumulated historical experience. This transitional period is unique because no other country in the world has ever had to move toward the market through the break-up of supermonopolistic hierarchical structures of commodity producers and commodity distributors, structures painstakingly erected over many decades. There is not a single country that, on its way to the market, has had to change the rules of behavior of the economic system in a short time, breaking firmly cemented administrative ties and anti-economic relations. No one else, on the way to the market, has had to overcome a mentality of command and subjection that has penetrated deeply into the minds of millions over the lives of at least three generations, and has become a historical stereotype.

Hence, we find the incredible complexity of the task, the constant necessity of choice among many possible decisions, the inevitable emergence of restraining mechanisms slowing down change, and the need to overcome obstacles. Moreover, we see that the search for new ways cannot be systematically fitted into a ready-made scheme, program, or course of action. Clearly, there is no program that could anticipate every detail, take note of every link, or avert any unforeseen foul-ups or miscalculations.

Of course, in such a situation, one cannot count on the relation between bureaucratic management (or "political pricing") and market mechanisms to be stable at all times. The liberalization of pricing will take time; we are facing a step-by-step transition to free prices on many commodities.

Nor can one fail to notice another characteristic: The establishment of economic relations is being initiated and carried out less through spontaneous and natural development "from below," among primary economic agents, than "from above"—both by the central authorities and by the republican and regional ones. Those authorities believe they are needed to dismantle the old administrative structures and to legally institute and protect the newly emerging market economy.

This process, to use Buchanan's expression, must lead to the creation of a "political constitution of economic order." That is why it seems to me that, with regard to the current starting conditions of the transition to the market, the following passage in Buchanan's paper should be considered extremely topical: "Market pricing will function effectively only within a set of framework rules that must, themselves, be established or maintained collectively. At the level of constitutional choice, there is no escape from politicization."

It is within this framework that answers to the questions of (a) how to minimize political influence on economic ties and relations, (b) how state regulatory agencies are to function in a market economy, and (c) how to make the transition from vertical to horizontal relations are to be sought.

There are, essentially, two ways: (1) Political institutions and their functions emerge from within the market economy, to serve the interests of free enterprise; (2) government structures of nonmarket relations and centralized allocation of resources change their nature and are transformed into political institutes serving the interests of the market.

Neither of these ways can succeed by itself, in unadulterated form, since we are dealing with a very complex, broad, and ramified system of administrative connections and hierarchies established deliberately and consistently. That is why the multichannel processes of transition to new governmental structures and the emergence of economic agents have already begun and must unfold simultaneously.

One of the tendencies is the elimination of structures adapted to "nonmarket relations" and the creation of minimally necessary new ones. Another direction is the establishment of parallel structures and the gradual replacement of old agencies by new ones. Yet another way is the transformation of government structures into economic agents performing within the framework of a market economy and run on a democratic basis.

Other approaches are possible as well, but it is already clear that a period of transition is inevitable, with old and new structures co-existing side by side and the new edging out the old as market relations take root and develop, and as market agents themselves—firms, concerns, consortiums, economic associations, joint-stock companies, commodity and financial exchanges, commercial mediators, small enterprises in various spheres—gather strength.

This transition means the development of conditions that, as Buchanan asserts, remove the necessity for political decisions related to the fixing of political prices, the allocation of available resources

among potential users, and the “financing” of the production of the goods being allocated.

## The Transformation of Government

During the transition period, the discretion and tasks of the central government diminish. Its functions are reduced primarily to overseeing market activities—for example, limited administrative regulation; supervision of the financial, credit, and tax systems; and the maintenance of a basic social safety net. The economic powers of the center represent the sum of powers delegated by sovereign republics.

Within the framework of those powers established by agreement, the central government exercises its authority in overseeing all-Union properties and funds and economic programs on an all-Union scale, and also ensures the greatest possible coordination in carrying out reform. In all these processes of the institutionalization of the market, it is very important to constantly emphasize, as Buchanan does, “the importance of the corollary feature of the market economy, which relates the organization of the economy to the range of political and bureaucratic discretion.”

The formula offered by Buchanan is inexorable: “If resources are not allocated and products distributed through the workings of a market system, then the allocative and distributive functions must be performed directly by political-bureaucratic agency. In this direct and obvious sense, markets, to the extent that they are allowed to operate, constrain bureaucratic intervention into the lives of citizens.”

Agencies of direct bureaucratic control over enterprises are exiting the stage; the very subordination of economic agents must disappear, and agencies of a new type will emerge: a state treasury, a small business assistance administration, an antitrust agency. The restructuring, streamlining, and transforming of government structures and their functions are only beginning. These are the processes that must blaze the trail toward a fundamentally new relationship between political and economic pricing, toward the minimization of government interference in price-setting.

Thus, if we speak of “politically influenced market prices,” we should very definitely proceed from the premise that prices are influenced by general economic policies as well as by government policies affecting prices: deductions from profits or revenues, taxes, tariffs, subsidies, and so on. But how does one move on to such a

system today, in the specific circumstances of a profound economic crisis?

## The Pricing Problem

There are three conflicting approaches currently under discussion:

1. The transition to the market should begin with a general price reform (a one-time price hike with compensatory income supplements for the population.
2. Price reform should take place after the stabilization of the financial and credit systems and of the monetary cycle, and after the elimination of government monopolies.
3. A step-by-step transition to free prices should occur without an administratively imposed price hike.

It is in the light of these approaches that the transition period, in which both the nature and the range of "political influence on market prices" will undergo changes, should be considered. These parameters are becoming changeable and dynamic. Various options, including compromises, are possible.

What is especially characteristic of, and important for, such "influence" today? I would name the following:

- coordination of financial, credit, currency, and tax policies;
- legislative regulation of economic activities and free enterprise, promotion of competition, consumer and environmental protection;
- the creation of a market infrastructure;
- a drastic reduction of the government budget deficit and "tying down" excess money;
- organic linkage of the transition to market pricing to the demonopolization of the entire system of economic ties between enterprises, organizations, and the population.

## The Question of Social Protection

Programs softening the negative impact of economic reform are designed to provide social protection to the population. The population is especially sensitive to such programs since this is a question of ensuring a guaranteed minimum standard of living.

The transition to the market is being carried out today not only in the midst of a profound economic crisis, disintegrating economic ties, political instability, and ethnic tensions, but also in an extremely unfavorable social and psychological environment.

If the price of reform is too high for the population, there is a very high probability of the emergence of protest movements in a variety of forms, of growing resistance to economic restructuring. Prices and incentives, prices and social climate—these problems will be in the forefront during the entire period of transition to the market.