

CHAPTER 6

THEORIES OF TRANSITION: IS THERE ANY ROOM FOR RATIONAL CHOICE THEORY?

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Introduction

In Central-Eastern Europe a complex construction of new constitutions and new corporate actors is in progress. The end of an imposed order has placed the transfer of individual rights and resources to the state and other corporate actors as one of the main issues on the agenda. This issue is not new in that it was dealt with by the moral and political philosophy of the eighteenth century. But today what is needed is a sound sociological approach, and it is here that the value of certain version of Rational Choice Theory (RCT) for the study of transition can be highlighted.

James Coleman, in his *Foundations of Social Theory* (1990), states that the shift from political philosophy to a positive social science should start from some fundamental questions: what rights and resources will rational actors be ready to transfer to the state and other corporate actors? On what basis? What use will the corporate actors make of the rights transferred to them? The attempt to answer these issues should address the effectiveness of the new normative order in its two main aspects: the subjects who evaluate this effectiveness and the criteria they use for the purpose. Thus, an old question arises once again: how to check the behaviour of *agents* who manage the corporate actors and who are also self-interested.

In his analysis of the corporate actor as a system of action, Coleman recalls that some processes leading to the oligarchic control by the *principals* simultaneously provide agents with opportunities for the fulfilment of their self-interest. This is a phenomenon which calls for a new organization theory able to explain the new balance between contributions and incentives at individual level. In Coleman's terms, one should shift from a "global viability", in which the imbalances in internal transactions are compensated by hierarchical structures, to an "independent viability" based on a new equilibrium between incentives and individual contribution from which a more precise evaluation of economic performance may derive.

Here we arrive at the core of RCT (rational choice theory) in Coleman's version, that is, the analysis of social structures which, in complex economic

systems, may induce individuals to contribute to the fulfillment of collective aims. In other words, the re-establishment of conditions for the efficient performance of economic organizations should draw the attention of social scientists to the need to focus on the creation, around individuals, of micro-institutions and forms of social capital which may help to overcome the problem of free riding.

The thesis put forward in this paper is instead that free-riding is not necessarily a negative phenomenon insofar as it is a condition which can help to recreate the humus of economic efficiency in those environments where it has been thwarted for political and cultural reasons. Indeed, that free-riding may be a factor of social change and modernization has been demonstrated by the experience of the former Soviet-type societies. For example, in these societies one of the basic constitutional rights was the right to work for every citizen. But this noble principle was applied within an economic organization based, in practice, on a sort of "reverse entrepreneurship" which not so much added as deducted value to production inputs (Buck, Filatotchev and Wright 1994: 1). The consequence was the spread of free riding in the form of participation in the shadow economy and a withdrawal of commitment to the official aims of the socialist economy. This widespread participation brought about the hidden privatization of the consumer good and service sectors, that is, the low priority sectors of the official economic system.

Thus, it is right to emphasize the need to study free riding, but to see it only in negative terms, as the opposite of zeal, is a wrong generalization. As a matter of fact the free riders in the shadow economy helped to create "paraentrepreneurial" capacities in people obliged to cope with all the paraphernalia of administrative, centrally planned economy. Indeed, one may say that free riding in Soviet-type societies was also a source of positive externalities. Hence, the possibility exists today that at least some of the ex-free-riders may turn into agents of economic modernization. But this must be accompanied by a general process whereby the principles of law and order and economic rationality permeate the institutional arrangements of transitional societies.

Coleman's version of RCT, then, needs further refinements because it has little reference to the societies of interest to us. This paper puts forward some preliminary reflections on one aspect of the debate on RCT, that is to say: it is true that this perspective can favor the hyperrationality of a "designer capitalism" imported acritically from the West? In the concluding section some remarks are made concerning the heuristic value of RCT for the study of transition. Specifically, the discussion refers to the concepts of interest and social capital and to two ideal types of action: state-dependent and entrepreneurial.

Why all that Dislike for the Concept of "Transition"?

One way of refusing the concept of transition is to reject the idea of modernization as a market-induced process because this may lead one to forget institutional mediation among divergent interests and redistribution via taxation. Within this perspective it is necessary to go "beyond pure market" so that efficiency, welfare, performance are regarded as features from which people can only benefit by organizational mediation (Muller 1995: 278). Even if it is acknowledged that the ideology of egalitarianism and of redistribution has encouraged rejection of the performance principle, it is claimed that social norms should not be reduced to the individualistic ethic of achievement. In other words, modernization in Central-Eastern Europe should not be seen as a sort of "creative destruction" of the totalitarian system by agents motivated only by rationally calculated self-interest. If this is done, the risk is that of lapsing into a "negative sociology" in which existing society is "appeased" and not regarded as an agent of reform (Muller 1995: 279).

Another way of going beyond the pure market is to claim that the processes underway can be conceptualized as a transformation whose end results are indeterminate. The abandonment of the narrative on transition is linked here with the discarding of the plan/market dichotomy linked, in turn, to the hypothesis that the real shift is from an ideological command economy to a market economy under the direct control of the state and powerful business groups (Codagnone 1997).

Still another way of refusing the concept of transition is to claim that the transfer of Western institutional patterns is bound to produce negative results because the institutions 'copied' lack the ethical infrastructure of the original. The risk therefore arises of creating an hyper rational 'designer capitalism' devoid of social consensus. What is needed in Central-Eastern Europe are institutions that must pass two tests: making sense and being fit, that is, institutions capable of inculcating a sense of duty in people and of producing results (Offe 1995).

These approaches are full of insights and pose real problems, but it seems that the implicit assumptions on which they rest are not that distant from those of the moral economists who regarded the marketization of precapitalist agriculture as the "peasantry's fall from grace" (Hobsbawm 1965, Migdal 1974, Scott 1976) There is apparently the belief that East-European workers -like the peasants of closed villages- are interested only in minimizing risk and maximizing social security. This is largely true, of course. But one should verify how many "state-dependent workers" there are, what their relative weight in the various branches is and -most of all- the way they combine private and public means in order to improve their lot (Shlapentokh 1989, Zaslavsky 1995). One should verify how much they are policy keepers and how much they are market participants, bearing in mind that not all market activities are

officially recorded, and also that economic culture can change so that the degree of dependency may begin to decrease.

In conclusion, those who dislike the concept of transition seem to forget that Soviet-type enterprises (with their company-towns), presented as 'post-capitalist', were largely pre-modern with their pre-tayloristic work organization and their autocratic-paternalistic style of management (Bendix 1973 <1956>). Area studies have shown that the working of the official system of welfare was quite different from the official picture (Lapidus and Swanson 1988, Herlemann 1987, Jones et al. 1991, Powell 1992). Consequently, one can apply here the same conclusion that applies to the closed village of precapitalist agriculture: if the security ensured by local institutions is limited, working people do not wait for a crisis to decide to engage in market transactions (Popkin 1986). The difference lies in the fact that the agents of the second economy had to pay financial tribute to the 'controllers' of the official economy either to buy protection or as 'hush money' (Mars and Altman 1983).

Thus, before discarding the "narrative of transition" it would be good to remember that in both the realities referred to the anti-market attitudes goes along with the spread of market oriented behaviour. State-dependent personalities may be common in post-communist countries, but this does not invalidate Popkin's conclusions. Firstly, capitalism may not be benevolent, but marketization may not be harmful because past institutions were tougher and much more ineffective than moral economists of the Seventies and sociologists who dislike transition suspect. Hence, it seems fair to think that the difficulties of transition are less the by-product of risk-aversion or of attachment to the previous order than the consequences of inadequacy of leadership or persisting lack of trust which hinder the coordination of economic activities and favor the reproduction of patron-client relations and corruption. Secondly, marketization may be good or bad according to the quality of institutional transformation which accompanies it. If this transformation goes in the direction of law and order, the benefits of transition to some kind of market society may accrue to workers and peasants too.

Rational Choice Theory and the Alleged Hyperrationality of "Designer Capitalism".

Rational Choice Theory, its assumptions and its methods, have aroused much discussion (Alexander 1982, 1992; Hindess 1988; Antiseri and Pellicani 1992; Coleman and Bourdieu 1991; Bourdieu and Wacquant 1992, Coleman and Fararo 1992). A criticism leveled at RCT which is of interests here concerns its alleged incapacity to understand the complexity of institutional transformation in Central-Eastern European Countries. The utilitarian assumptions of this approach are regarded as an obstacle against the construction of an analytical framework able to grasp institutional dualism and the motives behind the difficulties of this transformation.

Criticism of this kind is put forward by Claus Offe (1995), when he states that institutions must perform two functions: making sense and being fit. In other words, institutions must inculcate the sense of duty and produce results as well. RCT, he claims, is unable to provide analytical tools with which to understand the first kind of exigency because of its narrow focus on the logic of efficiency. Markets, property rights, firms are the preferred objects of analysis because the priority is given to utility maximization and not to the socializing function and to the relations between formal rules and the codes of behaviour of social actors. According to Offe, utilitarians (along with Marxists and evolutionists) gloss over two basic differences between institutions and organizations. The first is that only organizations can subordinate duties to expected results according to the Weberian notion of instrumental rationality. The second difference concerns institutional rules, which differ from organizational ones in that they are 'triadic', that is, enacted and enforced by third parties. Hence, organizational duties are narrower in their scope, validity and impact on involved actors. In other words, the task of institutions is to establish rules of conduct, routines and orientations, thereby facilitating interactions more than to cause savings on transaction costs. Institutions have an energy-saving character; they are not only constraining but also enabling, they are regulative frameworks which aid understanding the situation and to foresight of what may happen. This explains their stability, which implies, however, a difficulty in putting programs of institutional change into effect (Offe 1994:205). This approach is thought provoking, but it is difficult to agree with its application in analysis of continuities and change in the institutional arrangements of post-communist countries.

One of the main points in Offe's analysis is the following: the strengthening of democratic institutions in Central Eastern Europe will probably depend, more than on the quality of institutional redesign, on the trust, the patience and the propensity to cooperate of people. This is not to say that new elites should adapt to the slow pace of cultural change: it means that institutional "copying" from the West brings with it the risk of hyper rationality, that is, the creation of institutions devoid of the moral and cultural infrastructure of the original. This, in turn, implies a series of counter-intentional effects. Capitalism by design, with its too rapid institutional redesign may be liable to delegitimation by those who pay its social costs. Another point made by Offe is that the new institutions are not designed on a *tabula rasa*: they are 'successor institutions' which, despite their failure in the spheres of both systemic and social integration, have created assumptions, expectations, mindsets which are inimical to capitalist development (Offe 1994: 205-207).

But it is precisely in these reflections on the possible hyper rationality of institutional redesign and on the "long arm of the past" that the bias appears. Contrary to what Offe seems to think, the failure of real socialism did not bring with it negative consequences alone. We are not solely confronted by apathy, refusal of responsibility, atomization, corruption and low political participation.

Moreover, the alternative to these forms of withdrawal behaviour is not the collective action of protest alone. Above all, it is not true that people know only what they are not allowed to do. It all depends on what kind of people one chooses to focus upon.

We may say, accordingly, that the criticism of RCT and its utilitarian assumptions, along with the rejection of the term transition clearly reveals two biases. The first is the preference for "anticapitalist" and "state-dependent" social actors. The second (stated explicitly by Offe) is the belief that the experiences of Western democracies do not represent reliable models for the institutional transformation of post-communist countries.

The impression one gains is that the assumptions on which this kind of criticism of RCT is based stem from a hope: that of building a democratic socialism which will not fail -contrary to the Soviet one- in the two spheres of social and systemic integration and whose institutional arrangements are capable of 'making sense and being fit.' A legitimate hope, of course, which shines through Offe's conclusions when he asks whether designer capitalism might not be substituted for an "institutional gardening" of existing institutions (Offe 1994: 210). This question is also legitimate. But it would also be proper to ask: who should the gardeners be? How should they behave? Who should control them, and how? Indeed, if one tries to address these questions one may realize that at least some versions of RCT may have a place in the analysis of transition processes.

Conclusion: There is Some Room for RCT

In most of the post-communist countries, transition processes are today governed by political coalitions in which socialist parties play a paramount role. This fact, per se, does not represent an obstacle against the marketization of the economy. However, on the level of institutional transformation we are confronted by something reminiscent of Offe's institutional gardening: Thus the question is: how can we understand the strategies of social agents within the complex plot of continuities and changes in post-socialist organizations and institutions? Understanding certainly depends on the way one addresses the questions on the agenda: what aims should institutions fulfill? What kind of balance should be established between the logic of efficiency and that of social solidarity? Who decides (and how) the priorities and incentive structures? Clearly, these questions do not imply redesign techniques only; they imply values and interests (individual and aggregate) which confront each other in society. But I do not see this as an obstacle against a rethinking of some aspects of RCT with reference to transition.

Free riding should become a central problem in the study of social change, especially when changes are incubating in a gray area between legality and illegality. Revolutions from below are often silent in that they do not take place

solely through collective movements and confrontations among political forces. This fact calls for further elaboration of Coleman's arguments.

The social order in Central Eastern Europe after World War II was certainly an imposed order, but it was imposed through a bureaucracy whose functioning resembled the patrimonialistic pattern. The industrialization drive, imposed in the region, left out of consideration economic efficiency and consumer preferences. Corporate actors operating within the Soviet order were in fact quite different from those Coleman is referring to. They were not the result of a long evolution, their official working was not in accordance with local history and culture. But they proved to be able to last for a very long time.

What could rational -or reasonable- individuals do in this environment? Their strategies were different according to their position, power, capacity and social capital. But one may say that many of them resorted to a sort of *organized free riding*. Organized through precisely those micro-institutions (families, networks) whose role is emphasized in Coleman's analysis. But the working of these micro-institutions was not so dissimilar from that of their counterparts in the corporate villages, that is, they used to apply to public goods (to "socialist property") the same logic of investment applied to private goods in the market. What happened behind the institutional facade of real socialism was the spontaneous reconstruction of a social order with a double impetus: toward the re-awakening of economic rationality, and toward the reproduction of the dissociation between the public and the private sphere. Thus, in Coleman's terms, one might say that the Soviet order, which pretended to be a modern version of conjoint structure (where the reasons for social conflict no longer existed) in actuality was a special case of disjoint structure in which traits of spontaneous order coexisted with traits of the primordial order.

The complex intertwining of conjoint and disjoint structures in a normative order such as the post-Soviet one calls for further elaboration of some issues. Let us take, for instance, the degree of trust among individuals who are going to transfer rights and resources to the state and other corporate actors. To what extent are they sure that the transfer requested of them (with reference to values such as solidarity, for instance) will not help to reproduce a bureaucratized society only partially governed by universalistic principles? What forms will free riding acquire should this be the case? Here we have a very important point for discussion.

The transfer of rights and resources from individual to corporate actors, should also focus on ways to monitor agents' behaviour (North 1986, Alchian and Demsetz 1972). A new theory is needed which would take into account that self interest of organization members no longer can be satisfied by traditional inducements such as the various forms of welfare. A new theory, then, should leave aside the Weberian conception of corporate actors as machines whose components are human agents. The relationships among persons are different from those among roles. Consequently organization theory should account for the shift from a "global viability", whereby the

imbalances in internal transactions are compensated by the corporate actors, to an "independent viability" in which the equilibrium between inducements and contribution rests on the connection between individual productivity and earning (Coleman 1992: 425-428).

Socialist corporate actors lacked independent viability; the lack of market incentives entailed the lack of effective criteria for evaluating individual performance. Also missing were self-policing structures able to work as alternatives to global viability, such as make or buy, quality controls and so on. Nevertheless, Coleman deems possible an application to this context too of the remedies he proposes for Western corporations. In essence these remedies amount to the re-introduction of forms of social capital at the level of small social units in which individuals are included. This would impede the emergence of free riding through: (a) forms of control similar to those applied by the family and other primary groups and, (b) a sort of "communal redistribution" which should operate alongside the distributive channel of welfare institutions (Coleman 1992, pp.428-435).

The resemblance between Soviet-type enterprises and corporations is, however, not empirically grounded. Indeed, one cannot say that state socialism -with its "shortage economy"- has accomplished the historical shift pointed out by Coleman: from subsistence economy to an economy of abundance based on a complex system of interdependences. Moreover, the shortage economy was not embedded in a "civil society". Soviet-type societies lacked openness and autonomous bodies between state and society were almost entirely missing. Then, in these cases, the concept of "institutional amphibiousness", is more suitable than that of civil society. In these societies institutions, organizations and individuals as well lived a double life; many corporate actors, described as autonomous, were actually dependent on the party-state, the nature and functioning of institutions was rather indeterminate, and so were the borders among them (Ding 1994: 299-300).

From this one may conclude that some instruments for the recovery of independent viability may also be applied in transitional societies. But some of them should take priority over others because they are preconditions for the containment of possible unintended effects of the eastward transfer of some of the provisions advocated by Coleman. The so called "rights on innovation for innovator" should be given priority through precise and effective norms, because one escape from the administrative economy only insofar as the institutional environment becomes less hospitable to rent-seeking activities and more encouraging for entrepreneurship. Otherwise, the unintended effect might be that of reproducing a "civilizational incompetence" (Sztompka 1995) which hampers individuals from seizing the opportunities provided by a pluralistic market society.

But the point is that innovation must take place at the level of macro-institutions too. Coleman seems not aware of the many vestiges of pre (proto)-industrial society within communist societies. To name only the main two:

factories with a largely pre (quasi)-tayloristic work organization; a bureaucracy which was not a variant of the rational-legal model in that its real functioning were largely guided by patrimonialistic principles. Thus, the assertion of a Weberian conception of rationality in a context in which the distinction "eligible-not eligible" has long been blurred would be the sign that the transitions from "fake" (or failed) modernity to modernity is under way. In other words, the "anti-Weberian argument" of empowerment may be seen as an idea ahead of time because the Weberian notion of rationality still has to take roots in the successor institutions of post-communist societies.

The difficulties for the assertion of an open market society lie not only within politics and economy, though. Besides the quality of leadership and the scarcity of investment goods a basic problem exists in transitional societies: the scant reciprocal trust between state and society. This is the missing resource of post-communist societies which perhaps might be recovered by coherent reform policies, establishment of law and order, integration with the West, decentralization, independent mass media, Weberian bureaucracy and socialization processes in which trust is considered a value in itself (Sztompka 1995). All these aspects and their interrelations are to be addressed by theories of transition. To this aim middle range theories are certainly useful, but "parsimonious" conceptual frameworks of wider scope, such as that proposed by James Coleman, may prove of heuristic value too.

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