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Neo-Institutionalism and the Success Story of Capitalism: Two Different Approaches to Social Change²

Abstract

The central weakness of every institutionalism is its attempt to elevate the significance of formal and informal institutions as some exterior self-acting mechanisms, productive or unproductive ones, extractive or inclusive ones, above the factors that made them as such. Those other factors are paired and merged with them. They create them and it is not just abstract element of contingency or historical luck that improve or deteriorate some state of affairs, it is human rationality and irrationality, mentalities, habits, languages, destructives, *moeurs et manières* as Tocqueville would put it. This is the reason why abstract models of social behavior and historical explanation are of limited use in any analysis of social change. In this article we seek to explore this type of theoretical reductivism on the example of two different neo-institutional approaches to a social change.

Keywords: neo-institutionalism, reforms, transitional experience, capitalism.

Conventional wisdom of contemporary economics and political science says that in order to successfully transform, every society has to implement a well-known recipe – a preferable blend of political and economic reforms. These reforms – often termed “structural” – aim to introduce political (democratic) pluralism and free markets where

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neither is present, or where only one element exists. The recipe is not a panacea, but a product of well corroborated insight, based on experience of many societies in various historical periods. It is confirmed, economic freedoms bring growth and, when joined with political pluralism and firm institutions, pave the way for freer and richer society of liberal-democratic sort. This Friedmanian wisdom, in line with the logic of diminishing marginal utility, also says that every authoritarian, albeit economically free country, in one point of time tends to transform into politically freer one. Today, this explanatory pattern tacitly enjoys the status almost similar to one that natural laws enjoy in physics, particularly for social science benevolent to the idea of free markets. As accumulated and firmly corroborated knowledge of “know-how”, it seemingly represents simple solution and desirable model for each society aspiring to change.

In reality, however, this simple and elegant transitional remedy is seldom fully and consistently implemented. The examples of various eastern-European ex-communist countries (and not just them) well document this.³ It seems that societies are resistant to simple cures. Or, the cures are not so simple after all. It is than not surprising that one of the most important preoccupation of contemporary political science becomes attempt to understand strong “structural” resilience of many (transitional) societies to such perceived reforms. This is also preoccupation and practical agenda of supportive politics and strategies for developing countries of several international organizations such as the IMF or the World Bank.

If salutary findings of economics, sociology and political science converted into practical recommendations receive cold reality check, than one should think of some other factors besides narrowly seen economical (lack of institutions), sociological (group interests) and political ones (unwillingness of political elites), that can account for the poor implementation of these measures. To acknowledge this would be a necessary step in deepening our understanding of social change (or lack of it). Most importantly, these considerations might lead to an exploration of (political) rationality and the involvement of anthropological variable in the analysis of social changes. The exploration that is

3 Despite widespread opinion of social sciences that the post-socialist transition was from the outset driven by the „neoliberal agenda“, the history of reforms and ideological commitments of reformers in east-Europe from 1990 until present days does not validate this presumption. Venelin Ganev makes well documented and elaborated case for this scientifically „unintuitive“ thesis (Ganev 2005).

today seldom present in dominantly neo-institutional analysis of these matters.

Generally speaking, there are two main analytical attitudes regarding the ability of societies to transform. One, in which we can detect pessimistic stance, rests on the thesis that the complexity of human societies in itself – its history, political development, cultural factor, “mentality”, etc. – makes it very difficult and uncertain to implement even basic preferable “rules of the game”. Everything should be left to evolution, to the slow and uncertain “march of history”. The premise is that the most important thing for science is to understand change and elements of changes, not to advocate it or to predict it. It is up to societies, governments, politicians and citizens to accept or reject scientific – neo-institutional – findings. The other, optimistic and constructivist in spirit, says that although every preferable social change is uncertain and difficult undertaking, there are many examples throughout history that show successful changes and that general practical recommendations are possible. The latter is more ideologically fueled, with strong practical pretensions.

The vast majority of authors within the neo-institutional camp is somewhere in-between these two poles, claiming, for example, that the causes of prosperity and growth are detectable and well known but nonetheless, that there are no definite recipes for successful social change. Vivid example of this critically balanced, middle stance attitude, can be seen in Acemoglu and Robinson political science bestseller *Why Nations Fail* (Acemoglu and Robinson 2012). Of the latter kind is, for example, recently published *Renaissance for Reforms of Swedish* authors Stefan Föster and Nima Sanandaji (Föster and Sanandaji 2014). *Renaissance* claims to be “the required companion” to *Why Nations Fail*, but it brings out much more to it. Here we will have a closer look into differences of these two neo-institutional approaches to social change presented in these books, in order to highlight some neuralgic points within contemporary neo-institutional weltanschauung.

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Compared to the neo-institutional theory of Douglas North that focused on the importance of institutional ambient for social change and growth⁴, Acemoglu & Robinson add far more weight to political

4 The theory stressed the importance of institutional change for growth (in the first place firm protection of property rights and organizational improvements) and used this

factors, respectively. It can be said that politics in their institutional perspective comes before economics.⁵ Furthermore, they indicate a specific kind of political institutions – pluralistic in character which they term “inclusive”. These are favorable to growth and social prosperity. Opposite to them are “extractive” political institutions that benefit only small group of people while being exploitative for society at large. This addendum rightly relieves the authors (by their own opinion expressed in the reply to Fukuyama⁶ and by the opinion of the author of this article) from Francis Fukuyama’s accusations of “making almost the same point” that North, Wallis and Weingast made in one of their book, but just with different words (Fukuyama 2012).

The pluralistic political component is not necessarily and – at least not historically, associated with the type of representative democracy familiar today. For example, for centuries British society embodied pluralistic social order (division of power and existence of various competing interests) although not democratic by today’s standards. “Pluralistic” here means, in the first instance, “positive” in terms of the capacity of institutions to open space for social energies to emerge and interact, although unintendedly and driven by self-interest, for the better of the whole society. While using the term in this, broader sense of meaning, it seems as though the authors are relying on the institutions of contemporary democracy as paradigmatic for every sort of productive social pluralism.⁷

Thus, the core meaning of Acemoglu’s and Robinson’s central conceptual dichotomy, namely, that of extractive and inclusive institutions, cannot be reduced solely to economic dimension as represented through different notions in other neo-institutional writings. It aims to encompass the whole diversity of social life and, rightly, it can be seen

insight for the historical interpretations of Glorious and Industrial Revolution (North 1991).

5 “This book will show that while economic institutions are critical for determining whether a country is poor or prosperous, it is politics and political institutions that determine what economic institutions a country has. Ultimately the good economic institutions of the United States resulted from the political institutions that gradually emerged after 1619” (Acemoglu and Robinson 2012: 43).

6 See: „Response to Fukuyama’s Review” (Acemoglu and Robinson 2012b)..

7 It is not hard to detect in this adherence familiar political correctness of the present time toward the model of representative democracy with universal suffrage. This adherence cannot be found in „reactionary“ writings of old and contemporary „enemies“ of democracy. See, for example, Hoppe (2001).

as their contribution to the neo-institutionalism. This naturally leads to the central thesis of *Why Nations Fail* that only a complex combination of several factors (combination of inclusive economic and political institutions) can determine nation's destiny – prevent nations to fail or helps nations to succeed. Factors such as unhampered markets, firm rule of law that ensures predictability on every level of social organization, political pluralism (but not necessarily democracy) which enables social participation and power sharing of various groups and interests, and desirable levels of political centralization with the presence of powerful state apparatus in every part of the country.

The same pattern of success is not, and this is essential, bound to geographical and cultural contingency or to the factor of human ignorance and fallibility. There is no room for covert racism of various cultural relativist's well-wishers in this kind of analysis. "The history is not destiny" the authors are revealing, while presenting different historical experiences of once successful nations becoming "pariah" states and vice versa, from once undeveloped – culturally, economically, historically – regions of the world, to the world's leaders in prosperity.

The world of human affairs is thus seen as the world of constantly spinning "virtuous" and "vicious" circles throughout history. Virtuous circle represents preferable state of affairs in any society where inclusive institutions are firmly rooted. Vicious circle, on the other hand, corresponds to what Robert Michels calls "the iron law of oligarchy", a condition where a society is destined only to periodic shift of oligarchic elites, leaving otherwise promising countries in the condition of perpetual misery.⁸ It says that human factor itself, or to put it in Leninist vocabulary "cadre issue", does not mean much if specific institutions – the extractive ones – are firmly rooted. The real changes in society are not possible as long as changes within institutions are not allowed. The logic of both mechanisms can be explained on psychological basis, as a habit to keep present state of affairs or status quo in place as long as possible. The only question becomes how to "break the mold", preferably in the case of vicious circle.

8 Acemoglu & Robinsons exploit broader meaning of the metaphor (Acemoglu & Robinson 2012: 126) which Michels originally developed for representative democracy of western countries (Michels 1966). They use it as a metaphor for every society regardless of its democratic pedigree.

These vicious circles or molds could be broken with the help of what the authors have labeled as “critical historical junctures”⁹ and small institutional differences like monopolized character of trade in Spain compared to England in 17th century, which strengthened the power and influence of British merchants. Combination of critical events and small institutional differences and changes (that can often be detected only retrospectively) can pave the way for more inclusive political and economic settings.

Yet, the hallmark of successful, open and free economy is the presence of what, recalling Austrian economist Joseph Schumpeter, Acemoglu and Robinson call “creative destruction”: a process in which old is replaced with new, a process of constant dynamism and innovation that shake economic playfield provoking change of teams and making actors of market game even more successful with the necessary consequence for some of them of leaving the game.

Furthermore, pluralistic political institutions are a counterpart to the creative destruction in the sphere of economy, but the clear line between these two dimensions cannot be drawn. Creative destruction, where present, necessarily influences political order and vice versa. As we have remarked at the beginning, economic freedom leads to the political one, but the creative destruction is necessary consequence of economic freedoms. Creative destruction is present only where economic freedoms are secured. Again, the authors are stressing their commitment to the Fukuyamian ideal of political order, namely, western type liberal democracy.

But, what about growth under extractive institutions? As demonstrated by ample historical evidence, growth is still possible under extractive institutions. And this fact has for long time been used as an argument in favor of authoritarian concepts of societies from various sides, left and right irrespectively. Even among enlightened western socialist camp there still exists an admiration for “Hitler’s economic miracle” of the thirties,¹⁰ “economic success” of USSR and Deng Xiaoping’s

9 As were, for example, Black Death in 1346 that wiped out population of medieval Europe thus causing the increase of the price of peasant’s labor, or opening of transatlantic trade route in 17th century, or the process of European colonization, or Mao Zedong death in 1976... (Acemoglu & Robinson 2012).

10 For the economical “success” of Hitler’s economy see: Aly (2007).

reforms in China.¹¹ But from the logic of arguments exposed in *Why Nations Fail*, it follows that this kind of reasoning is without any foundation in economic science. For without technological innovation and market dynamics, this artificially produced growth is in the long-term unsustainable and is doomed to crumble, just as USSR did.¹² So the real issue becomes not whether growth under extractive institutions is possible, since it obviously is, but why the obvious fact of long-term unsustainability of such growth is neglected by many social scientists?

Summing up it can be said that probably the most valuable aspect of this book is a respectable dose of caution the authors have demonstrated in escaping the “easy explanation” trap. This concerns perspectives of any society to transfer from extractive to inclusive social and economic institutions. To reach such an ideal is difficult undertaking and authors are very careful not to fall into mechanistic or routinized vision of economic growth and story of success often connected with the simplified version of neo-institutionalism. The central place in their historical interpretations is given to the factor of historical contingency. Whenever their interpretation becomes too promising and optimistic they make one step back reminding us that large part of the world has never succeeded in building inclusive institutions and has, as a consequence, been permanently entrapped in the vicious circle. Those that managed to succeed, in one historical period or another, did it with the confluence of many (fortunate) circumstances in one place at a time.

Still, there are many examples of success, and throughout the book the authors are shifting from one side of the world to another, from one historical period to another, listing – sometimes seemingly unnecessary and tiresome for the reader – countless examples of successful stories and practices. But these examples and ready-made “know-how” means little when we include in analysis a complex and uncertain ambient of countries such as Argentina, Nigeria or some Balkan states, frozen into a process of never ending and ill-performed transition. It

11 Interestingly though, this admiration usually does not stretch enough to encompass the example of Chilean kind of economic miracle under general Pinochet.

12 “...growth under extractive institutions differs in nature from growth brought forth by inclusive institutions. Most important, it will be not sustained growth that requires technological change, but rather growth based on existing technologies. The economic trajectory of the Soviet Union provides a vivid illustration of how the authority and incentives provided by the state can spearhead rapid economic growth under extractive institutions and how this type of growth ultimately comes to an end and collapses” (Acemoglu & Robinson 2012: 1). Authors think that same grim destiny is awaiting China.

matters little, especially for the despondent and discouraged populations of these countries, even for their pro-reform oriented elites.

So what is the value of such neo-institutional analysis wrapped in a sheet of contingency? Can it be that the most valuable aspect of the book at the same time presents its greatest weakness? For contingency thesis might be seen as just a theoretical safety mechanism for neo-institutional explanation malfunction. Another way to admit – covertly – that institutions are not, after all, everything that matters? If this is the case, we should search for some other models of explanation that will not hide the problem under the rug of irrefutable and metaphysical concepts such as contingency. But before making some indication in what direction our search should lead, we will analyze another example of neo-institutional approach to institutional changes.

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In contrast to this cautious attempt of making a case for neoliberal reforms, Fölster and Sanandaji in their book *Renaissance for Reforms* take a more aggressive and optimistic attitude towards the ability of societies to implement successful reforms. Not only do they too acknowledge the importance of some basic economic institutions for growth, they also put forward bold thesis that reforms pay off not just to society in general, but for the reformers too. In a way, their book presents a completion of unfinished work of Johnn Munkhamar and confirmation of his thesis that “reformist politicians can not only be motivated by altruistic reasons, but also by self-interest” (Föster and Sanandaji 2014: 13).

One of the first lessons one learns from the accumulated transitional experience is that the political life of reformers or prominent actors of painful and long-term oriented reforms is very short and personally unprofitable. Precisely this thesis, or “myth”, is subject to the authors’ rebuttal. Surprisingly, the counter-argumentation is built on a comparative research on 29 OECD countries, in fact mostly on developed western societies (Fölster and Sanandaji, 2014, 13). However, general observations and conclusions are not limited just to them and the analysis takes into account also countries such as Argentina, Mexico, Venezuela, Zimbabwe and other countries of interest for the analysis.

The first thing that a reader might try to understand, especially one familiar with the thesis of the ill-fated destiny of reformers, is why the primary analysis is focused on the developed countries. This question

seems to be justified since the thesis of gloomy destiny of genuine reformers is – in the first instance – related to the politicologist discourse of post-socialist transitions. It has nothing to do with practice of reforms in developed western countries that have never experienced central planned economy and socialist way of life.

But the authors are not giving the answer to this question. Instead, they are exposing another interesting thesis. Namely, that the world is witnessing a “dramatic shift towards growth-oriented governance” which means in other words that many countries are now implementing free-market Friedmanian type of reforms. This is corroborated by the World Bank’s Ease of Doing Business ranking index which shows 6% average improvement of business climate from 2006-2011. The highest achievement comes from non-EU European countries and South Africa region. Surprisingly, explanation of such course of events is not to be found in forced reaction of the countries to the financial and economic crises of 2008, but to the spread of the experiences and “know-how” of successful countries facilitated by the media of globalized world. It seems that the authors are firmly convinced in the power of knowledge transfer and information spreading as universal means for changing societies.

This optimistic standpoint is based on several factors. Beside abovementioned world climate change regarding reforms, the crucial evidence that supports optimistic view they find in the analysis of the reformers and the roles of the ideologies in contemporary world of politics. The main finding of the analysis presents very interesting thesis of the interconnection of market reforms and reelection of centre-left governments.

The analysis included 93 periods of governments of 29 developed OECD countries (excluding Chile, Mexico and Turkey due to low development, and Switzerland and Israel due to political peculiarities) in the period from 1995 to the present. The method used is binary probit model (winning or losing election of the parties of the same political orientation) based on the findings of The Heritage Index of Economic Freedoms and with special focus on unemployment rate during the periods of entering and leaving the offices.

What is interesting in their analysis is that in the first phase of examination, when generally comparing political orientation of parties and election results nothing was surprising: “After their first terms, left gov-

ernments have been less likely to be re-elected than right governments. A low unemployment rate in the year of re-election entails a higher probability of re-election” (Fölster and Sanandaji 2014: 35). But when focusing only on pro-reform political parties, we detect two interesting findings. First, centre-left reform oriented parties have as a rule been re-elected. And, second, the level of reforms’ achievements (which is indicated by the economic index score) shows that more reforms are performed by center-left oriented parties than by center-right political parties. There is a strong correlation between levels of economic freedom and reelection of centre-left governments: more reforms mean to centre-left parties’ higher possibility of reelection. The same does not apply in the case of centre-right governments (Fölster and Sanandaji 2014: 35).

This curious finding is explained in the following manner: “Centre-left governments which increase the level of economic freedom can attract support from centrists and even from right-leaning voters. Most voters who endorse market reforms tend to support centre-right governments. This means that the opportunities for centre-right governments to broaden their electoral support by market reforms are limited, while left-leaning parties who choose to deregulate and decrease taxes may be doing so attracting the attention of the typical centre-right voter” (Fölster and Sanandaji 2014: 40). Summing up the authors conclude that “Only Nixon can go to China”.

The additional factor that can account for this strange political behavior – strange in the sense of the usual image of commitments of political actors to the political ideologies – is the level of political rationality present both among electorate and parties in their assessments of necessity of reforms. The authors are giving a vivid example of Danish social democrats who rejected the high fueled ideological rhetoric and embraced pro-market reforms. There is also a case of European flagship of social democracy, namely that of Sweden, where pro-market reforms have been implemented for many years.¹³ Other better known examples of diminishing significance of ideological orientation in the world of politics are those of famous “Thatcherism” of Tony Blair and New Labour in the nineties or “neoliberal” reforms of Australian so-

13 Although many still think that Sweden is European bastion of socialism. On the Swedish experience of socialism see: Sanandaji (2012).

cial-democrats Bob Hawk and Paul Kiting that stretched for decades, or Canadian pro-market reforms of Jean Chrétien and Paul Martin.

The key explanatory variables that Sanandaji and Fölster use in order to explain new tide of world's pro-market reforms are diminishing role of ideologies and ideological discourse among the political parties in highly developed countries and increase of demand for sound and economically responsible policies within politically highly rational electorate.

Through the investigation of what they call "reform threshold" (that is, a degree of responsiveness of a constituency to the imperatives of reforms) they found that the countries with lower reform threshold (that is, the countries with richer experience in past successful reforms) will fare better compared to those with higher reform threshold and without such experience. The case of Ireland is illuminating in this regard. Former reform experiences helped Ireland to successfully adapt to the situation after the crisis in 2008 when it entered into a drastic economic turmoil. Also, northern European countries that hold the lowest reform threshold are an example of this responsiveness to the imperatives of reforming. But it is quite a different case with problematic European countries, such as Spain, Italy or Greece. That leads authors to state that apart from experience of successful reforms, some other factors, such as the spirit of solidarity, are also required for lowering reform threshold (Fölster and Sanandaji 2014: 69).

This analysis seems a bit oversimplified. It says that the countries that had already experienced successful reforms in the past are more prone to accept the new ones. Besides the odor of triviality present here, we cannot see how this can be related to those countries without such experiences. But the authors (optimistically) presupposed just that. This explanation can hardly satisfy all those countries and reformers that have never had successful reforms but are still seeking to achieve them. This simple weakness in authors line of argumentation shows that the paradigm of successful reforms in developed countries with high degree of political rationality of political elites and electorate cannot be adequate theoretical tool for general explanation why nations fail or succeed, to use Acemoglu and Robinson words, and even less to advocate – which is of more importance for the authors of this book – particular institutional changes for the troubled societies.

Announced as a “companion” to *Why Nations Fail*, *Renaissance for Reforms* demonstrated higher ambition than its predecessor. What the authors of *Why Nations Fail* refrained from, the authors of *Renaissance* rush impatiently to. They boldly throw historical contingency thesis into the dustbin of analysis. They give specific recommendation for all would-be reformist governments. This ambition rests on conviction that the fruits of market liberalization (although often in practice very modest – the fact not mentioned in this book) are so obvious and empirically corroborated that it is almost impossible that any rational political actor would not appreciate them. This is a paradigmatic sort of neo-institutional reasoning, at least as a premise, and one must admit very honest, but also a naïve one. This is obvious in simplified understanding of human behavior and rationality expressed in their wonderment how anybody can (having in mind “the fact” that global renaissance of reforms is taking place right now) tolerate irresponsible rulers: “...it would actually be quite surprising if people continued to tolerate leaders and rulers whose policies maintain a status quo of poverty” (Fölster and Sanandaji, 2014: 20). But people do so, constantly.

There are eight recommendations provided in this book, which comprise all important elements already mentioned. These are learning from research and experience, asking the right questions, introducing reforms that can be evaluated, creating evaluating institutions, coupling good reforms, starting with small-scale changes, partnership with opposition, and keeping up the good work (Fölster and Sanandaji 2014: 105). These recommendations certainly present useful guidebook for any government committed to reforms. Not that they should not abide to it. But will countries of accumulated negative reform experience such as Argentina, Greece, or Serbia abide to them? In its manner, this guidebook resembles the “know-how” of popular affirmative psychology books; it assumes ideal situation that lacks complexity of real life in which numerous factors – social, political, cultural, economic etc. – emerge and confluence. It assumes highly ordered and rational political situation and these are precisely the elements missing from any country in need of structural reforms.

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It is difficult not to admit that neo-institutional understanding of society sounds compelling. Institutions are certainly grounding factors of every society in every historical period. Their importance is undisputable. Even anarchical social organization includes institutions, al-

though unhampered ones and lacking exterior involuntary coercion of the state. Furthermore, accumulated historical experience has convincingly demonstrated that societies with a higher degree of economic freedoms, firmly secured institution of property rights and sound rule of law will eventually bring growth and prosperity. The history of unprecedented achievements of Industrial Revolution and, consequently, record growth that world has experienced since then, with population boom and tenfold and even larger increase in living standard, is the story that is constantly repeated by most prominent economists and social scientists. However, this true story telling has traditionally had small impact on policy makers, and the ordinary understanding of economy.

This same historical experience, particularly one that followed after the demise of classical liberalism at the end of nineteenth century¹⁴ has demonstrated, also convincingly, that high state regulation and planning of economic life brings stagnation and decline to every society that adhered to this strategy. The final result of the famous socialist calculation debate that started at the beginning of XX century theoretically sealed the fate of the possibility of economic calculation under socialism (Steele 1992). But still, this scientific finding did not prevent a large part of the world from entering into some form of socialism in the same period of time.

This means that in our explanatory models of social behavior and the institutional changes we often neglect some important variables that can account for a great deviation in accepting these “self-evident” truths and experiences. Thus, any analysis of social change based on importance of various types of institutions should try to avoid reductivist vision of human behavior. It should try not to be built solely on the idea of subject as rational (self-interest oriented) actor, as it is presented in the game theory of neo-institutionalism, or in economics in general (Caplan 2007). Nor should it substitute logic of other fields of life, such as politics for the utility maximization logic of economics. We should not thus regard political actors accordingly, as agents driven just by the desire to improve their own position – or, consequently, and if rational – condition of the population in general. Instead, we should add in our analysis those less predictable but still existing elements of social life, or life of individual, like for example, those virtues of which Deidre Mc-

14 For the process see: Mises & Greaves (2005).

McCluskey recently wrote (McCluskey 2007). With these other elements of human behavior we can better explain some historical events or present situation in some transitional countries.

The central weakness of every institutionalism is its attempt to elevate the significance of formal and informal institutions as some exterior or self-acting mechanism, productive or unproductive ones, extractive or inclusive ones, above the factors that made them such. Those other factors are paired and merged with them. They create them and it is not just abstract element of contingency or historical luck that improve or deteriorate some state of affairs, it is human rationality and irrationality, mentalities, habits, languages, destructives, moeurs et manières as Tocqueville would put it. This is the reason why abstract models of social behavior and historical explanation are of limited use in our analysis of social change.

To put it differently, economic science says, for example, that capitalism is comparatively superior to any of its alternatives. Historical course of events confirms this as well as Index of Economic Freedoms of Heritage foundation, Doing Business of World Bank, or any other day to day or yearly analysis and indexes of economic data. But these rational and objective insights would, as a rule, hardly provoke individuals or groups, politicians or ordinary citizens, smaller communities or whole countries to embrace this knowledge and act in accordance to it. This is due to the fact that our behavior is not solely managed by the regime of truth or untruth, or by scientific findings, nor it is managed by best practical recommendations confirmed by experience. In a word, learning from the experiences and best practices is often not primary motivational factor for individuals and societies in general, nor is it complying with the rational and prudent insights of economy or other social sciences.

When recognizing undisputed superiority of capitalism, Josef Schumpeter remarked that this means almost nothing when one has in mind deeply rooted tendency to short-term reasoning of ordinary people.¹⁵ Ironically enough, it is the very human nature, that liberal

15 "In order to identify himself with the capitalist system, the unemployed of today would have completely to forget his personal fate and the politician of today his personal ambition. The long-run interests of society are so entirely lodged with the upper strata of bourgeois society that it is perfectly natural for people to look upon them as the interests of that class only. For the masses, it is the short-run view that counts. Like Louis XV, they feel après nous le déluge, and from the standpoint of individualist utilitarianism they are of course being perfectly rational if they feel like that..." (Schumpeter 1994: 145).

economists and social scientists so often refer to, that undermines their main argument, and in fact brings into question the sole premise of the notion of human nature which they hold.

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All this does not imply that we should not, particularly in the sphere of policy making, adhere to the best known models or practices of social organization. We should and we must tell and retell a story of success of capitalism, not just because of its economic accomplishments and general usefulness, but above all its moral superiority – to put it in Randian perspective. To these we are bound by historical evidence of devastations of various kinds of destructive collectivism that emerged on the ruins of the institutions that underpin every capitalist society. This is also the primary responsibility for social scientists as truth seekers – as Karl Popper would say – and not the least important moral beings – to put it in Kantian perspective. But saying this does not mean not to recognize some inherent flaws in reductionist vision of social behavior, technocratic notion of social change and naïve story of successful social transformations present in world of dominant behaviorist, neo-institutional or mainstream political science and economy.

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