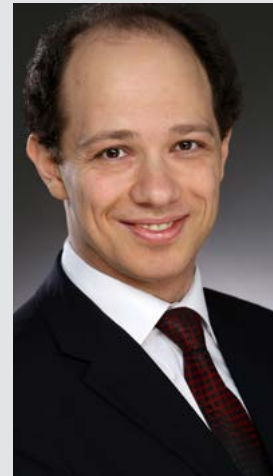


# What is the Relation of Markets, Property, and Freedom in the Liberal Script?

Alexander Libman

*Economic reforms and transition in Eastern Europe in the 1990s were based on the idea of the indivisible unity of political freedoms and the market economy. Over time, alternative interpretations emerged, with markets becoming part of illiberal alternatives to the liberal script. Two lines of argumentation can be identified: markets as being challenged by democracy (and thus in need of protection by authoritarian rule) and markets as spaces of power and dominance.*



## 1 MARKETS AND FREEDOM IN THE EAST EUROPEAN TRANSITION

The fall of Communism and the onset of the economic transition in Eastern Europe was at the time perceived as a big triumph of the liberal script. The fact that these countries fail to live up to the expectations of that era is probably one of the biggest disappointments. In the transition paradigm embraced by Eastern European countries, the liberal script was inherently associated with both *political and personal freedom* (within the framework of a democratic form of governance) and the *free market economy and private property*. Unlike in other parts of the world where markets were seen as existing independently of political institutions, Eastern European reformers from the very beginning saw democracy and market economy as inherently intertwined. A stable market economy and a functioning democracy were supposed to mutually reinforce each other.

One can only speculate why in Eastern Europe (as opposed to other parts of the world, like Asia or Latin America) this link was postulated so strongly by the reform actors. To some extent, it could be due to the nature of the Communist regimes themselves, which were also based on the implicit assumption of an inseparable unity of their economic and political systems.

Attempts at partial democratization within the framework of the planned economy (like Gorbachev's *glasnost*) turned out to be unsustainable. The idea of economic liberalization combined with maintaining the power of the party (the 'Chinese approach' to economic reforms) was discussed more often but hardly had any chance in the urbanized educated Eastern European societies. Ultimately, citizens of post-Communist countries, dissatisfied with their regimes, rejected both of these options. At the same time, the political and economic thinking of reformers, who themselves were socialized in the Communist systems, was also based on the assumption that economic and political reforms are inseparable – and thus, personal liberties cannot be ensured without a market economy, nor efficient markets without personal liberties.

This perception of markets and political freedom as inseparable, which existed in Eastern Europe in the early 1990s, began to fade, however, in the first years after the fall of Communism, with the onset of a deep transition recession. Increasing poverty and status loss experienced by many citizens of post-Communist countries (most notably, in post-Soviet Eurasia) challenged the perception of markets as increasing personal freedom. Unlike during the Stalinist era, the Brezhnevite USSR (and similar regimes in Eastern Europe) allowed the existence of substantial 'private spaces' (outside the state's control), where people could communicate and act in a relatively free manner (as long as they paid lip service to the ruling ideology in public spaces), as well as providing encompassing social security and employment guarantees (Fitzpatrick 2022). The transition to a market economy, along with growing instability, risk of unemployment, and higher competition on the job market, was therefore perceived by many as *reducing* and not *increasing* personal freedoms. Economic pressure from impersonal market forces was perceived as more severe than the political pressure from the late Socialist state since the latter had essentially been limited to symbols and instances of public expression. A lack of knowledge about the functioning of market institutions exacerbated this problem.

This led to a de-legitimation of markets, and, due to their inseparable link to politics, de-legitimation of democracy. The widespread Communist nostalgia and the rejection of the chaos of the first democratic years was among the key pillars of the new authoritarian regimes in post-Soviet Eurasia: Vladimir Putin, in particular, came to power promising to put an end to the instability of the 1990s (Belmonte/Rochlitz 2019). Interestingly

enough, however, these new illiberal alternatives rarely explicitly reject the market. With the exception of Alexander Lukashenka's Belarus, there are no left-wing illiberal regimes in post-Soviet Eurasia. In most cases, alternatives to the liberal script attempt to incorporate markets and private property but use entirely different arguments about them than the original idea of the inseparability of markets and freedom predominant in Eastern Europe.

## 2 THE AUTHORITARIAN STATE AS PROTECTOR OF MARKETS

The first illiberal alternative emerged already in the 1990s. During this period of disillusionment with the market economy among key groups of the society and the growing popularity of left-wing parties, some of the reformers embraced the idea of a pro-market dictatorship, meaning the (supposedly temporary) suppression of political and personal freedoms in favour of the promotion of market reforms. References to a myth of Augusto Pinochet, a dictator 'rescuing' a country from the Communists and implementing radical liberal reforms, frequently served as markers of this discourse (Rupprecht 2016, 2020). Less radical supporters of market reforms embraced the idea of an autonomous state, one which would not be affected by interest groups and would be capable of implementing the necessary economic reforms.

There are several foundations for this type of reasoning about markets and freedom in Eastern Europe. The first one is, generally speaking, a very sceptical attitude towards democracy in the international (Western) economics scholarship of that era: democracy was seen as inherently associated with competition for rents and populist myopic politics, from which an 'autonomous state' had to emancipate itself.<sup>1</sup> Second, somewhat paradoxically, Marxism, the intellectual tradition most post-Socialist reformers were trained in, also suggested that one has to focus on economic issues rather than on democratization: ultimately, those trained in Marxist thinking were more likely to concentrate on the economic 'basis', assuming that the 'superstructure' would eventually adapt. From this point of view, rapid economic transition, associated with the establishment of what Russian reformers referred to as a class of private property owners, was more important than democratic institutions. Third, the growing

<sup>1</sup> Partially, this may be explained by the fact that early political economics (e.g., the Public Choice school) paid much larger attention to democracies than to autocracies in its scholarship. Thereby, it amassed substantial evidence about the problems of democratic systems, more so than about authoritarian ones.

popularity of the Communist parties in Eastern Europe also suggested that relying on democracy was a questionable endeavour. The perception of the constant threat of the Communist ‘revanche’ was perceived by the pro-reform governments in post-Socialist Eurasia (at both national and local levels) as a justification for the need of power consolidation, associated with establishing constraints on democracy (Furman 1999).

The very emergence of Putin’s regime in Russia is to some extent the product of this type of reasoning. A ‘designated successor’ to Boris Yeltsin, Putin was seen as a strongman consolidating the state in order to ensure the implementation of market reforms. The first years of Putin’s rule were indeed associated with overcoming a number of important reform blockades, which existed under Yeltsin; during this period, Putin enjoyed the support of liberal pro-market groups in Russian politics and the parliament. Global markets ‘rewarded’ the strict market-oriented policy of Vladimir Putin well into the 2010s: low public debt, stable finances, and relatively secure property rights (for the majority of Western firms) made Russia a lucrative location for foreign direct investments (Aslund 2004; Gould-Davies 2016; Petrov et al. 2022; Rutland 2023).

Even after the full-scale invasion of Ukraine, Putin continues referring to economic freedom as the best response to Western sanctions: he did it in March 2022<sup>2</sup> and again in March 2023.<sup>3</sup> It is unclear whether Putin really subscribes to these arguments, but they are nevertheless part of the rhetoric of the Russian state, perpetuated in spite of the dominant anti-Westernism. Although the economic policy of Putin’s government since the middle of the first decade of the 2000s is hardly characterized by a consistent application of liberal ideas and the protection of private property, it has also refrained from large-scale redistribution and massive interventions into the functioning of markets. This is, in fact, one of the reasons for the resilience of the Russian economy to Western sanctions in 2022–2023.

---

2 [https://www.dp.ru/a/2022/03/05/Putin\\_zajavil\\_o\\_maksimaln](https://www.dp.ru/a/2022/03/05/Putin_zajavil_o_maksimaln)

3 <https://www.vedomosti.ru/politics/news/2023/03/15/966622-putin-prizval-rasshirit-ekonomicheskie-svobodi>

### 3 THE MARKET AS A SPACE OF POWER

The references to markets frequently made by Putin, however, seem to reflect yet another type of reasoning, which has rarely been directly articulated but in fact seems to play an important role in how Putin (as well as large parts of the Russian elites) perceive social reality.

In 2007, Piccione and Rubinstein published a paper entitled ‘Equilibrium in the Jungle’ (Piccione/Rubinstein 2007). The idea was to show that many standard assumptions of the general equilibrium theory of markets used in economics can translate easily to a completely different social system: one based on power and coercion. While this paper was a purely theoretical exercise, it is a good starting point to understanding what appears to be a key aspect of the Russian leadership’s reasoning: the perception of markets as spaces of coercion and power.

In a market economy understood in this way, the powerful and the strong always prevail; the weak has to give away to the interests of the more powerful actor. Rules and norms are perceived formalistically: they can be adapted to serve the interests of powerful actors. Part of this thinking is widespread cynicism: the perception of all market actors as willing to maximize their profits at all costs. From this point of view, control over markets serves as a perfect foundation for constructing an authoritarian regime. While, in the minds of the early reformers, markets and political freedoms had to mutually reinforce each other, in the view of the modern Russian elites, markets are instead linked with authoritarian rule in a reciprocal relationship (or, put differently, democracies are perceived as manipulated by powerful political-economic actors).

This way of thinking also has deep roots in Russia and some other post-Socialist countries. First, it can again be traced to Soviet-era Marxism: specifically, to the way how Marxism presented the functioning of capitalist economies and societies. Furman (1996) astutely notes that the ‘capitalism’ which Russian elites of the early 1990s sought to construct was in fact a Soviet caricature of capitalism: a world of endless and unlimited greed, exploitation, and lawlessness. This is how the Soviet textbooks presented capitalist societies, and this is how the post-Soviet market economies really worked. Similarly, second, the personal experience of elites under Putin (to a large extent consisting of people who managed to be relatively successful

in the ‘wild capitalism’ era of the 1990s) convinces them that markets are based on mutual mistrust (Oleinik 2005) and violence (Volkov 1999) as a universal norm.

One of the reasons why Putin’s government remains so committed to the market economy appears to be that, in the past, markets have served as useful tools for exercising power. Within domestic politics, Russian authoritarianism is to a large extent based on workforce mobilization: employers force their workers (in particular, the *byudzhetniki* – employees of the state-owned enterprises and institutions) to vote for the ‘right’ candidate or to participate in pro-government rallies (Frye et al. 2019). This tool served Putin more effectively than repression (which still remains limited). Within international politics, Putin’s regime relied, for many years, on economic control as a key tool of power. It used sanctions against its neighbours to promote its policies (Drezner 1999), as well as foreign direct investments to increase its political leverage (Tsygankov 2006; Libman et al. 2022). While, over time, military coercion became more important than economic tools (the war in Ukraine being the most prominent example of this logic), even in 2022, Putin seems to have relied on economic interests and dependencies in his calculus about how large the Western support for Ukraine was going to be. Putin’s critique of the sanctions against Russia is essentially a market-based one: he criticizes the lawless expropriation of property of Russian oligarchs and the Russian state, and claims that sanctions will fail because, ultimately, economic interests will prevail.

#### 4 CONCLUSIONS

The Eastern European (and, in particular, the Russian) experience is highly illustrative in showing how the market economy and private property can be integrated into the contestations of the liberal script. Illiberal leaders can use markets and the protection of private property as a core element of their alternatives to the liberal script, either presenting themselves as protectors of markets and private property against populist expropriation or supporting the market economy because it can serve to enhance their power.

This type of contestation is difficult to deal with, both on the level of argumentation and that of practical policies. It is difficult to develop a set of coherent arguments, which would, for example, reject the use of markets

as spaces of power, without appearing, at the same time, as arbitrarily directed against successful non-Western competitors. Autocrats ultimately use their economic power within the framework of liberal norms and rules created by Western actors. It is particularly difficult to develop coherent counter-arguments, because accusations of arbitrariness can actually be correct, on the level of practical policy, which reduces the credibility of Western actors even further. How can one constrain foreign investments from an authoritarian country without undermining the credibility of the idea of a free global economy, and how likely are Western politicians to introduce these constraints in light of their own interests?

Russia's economic power is dwindling after the onset of its war against Ukraine, and it is uncertain whether or not Putin's government will turn to purely non-market policies and ideologies in the future; yet the fundamental challenge posed by autocracies incorporating markets in their 'scripts' will remain and will be difficult to resolve.

## REFERENCES

- Åslund, Anders 2004: Russia's Economic Transformation under Putin, *Eurasian Geography and Economics* 45(6): 397–420.
- Belmonte, Alessandro / Rochlitz, Michael 2019: The Political Economy of Collective Memories. Evidence from Russian Politics, *Journal of Economic Behavior & Organization* 168: 229–250.
- Drezner, Daniel W. 1999: *The Sanctions Paradox: Economic Statecraft and International Relations*, Cambridge: Cambridge University Press.
- Fitzpatrick, Sheila 2022: *The Shortest History of the Soviet Union*. Princeton: Princeton University Press.
- Frye, Timothy / Reuter, Ora John / Szakonyi, David 2019: Hitting Them with Carrots. Voter Intimidation and Vote Buying in Russia, *British Journal of Political Science* 49(3): 857–881.
- Furman, Dmitrii 1996: Historical Materialism Turned Upside Down? From the Ideology of Perestroika to the Ideology of "Building Capitalism" in Russia, *Sociological Research* 35(2): 42–61.
- Furman, Dmitrii 1999: "Centers" and "Peripheries". The Political Systems of the Three East Slavic Republics, *Russian Politics & Law* 37(2): 16–35.
- Gould-Davies, Nigel 2016: *Russia's Sovereign Globalization. Rise, Fall and Future*, London: Chatham House, The Royal Institute of International Affairs, <https://www.chathamhouse.org/sites/default/files/publications/research/20160106RussiasSovereignGlobalizationGouldDaviesFinal.pdf> (accessed 27 March 2023)
- Libman, Alexander / Stone, Randall W. / Vinokurov, Evgeny 2022: Russian Power and the State-Owned Enterprise, *European Journal of Political Economy* 73: 102–122.
- Oleinik, Anton 2005: A Distrustful Economy. An Inquiry into Foundations of the Russian Market, *Journal of Economic Issues* 39(1): 53–74.
- Petrov, Kirill / Kazantsev, Andrei / Minchenko, Evgeny / Loshkariov, Ivan 2022: Putin's Rise to Power. Russian Roulette or Elite Act? *Russian Politics* 7(3): 422–449.

- Piccione, Michele / Rubinstein, Ariel 2007: Equilibrium in the Jungle, *Economic Journal* 117(522): 883–896.
- Rupprecht, Tobias 2016: Formula Pinochet. Chilean Lessons for Russian Liberal Reformers during the Soviet Collapse, 1970–2000, *Journal of Contemporary History* 51(1): 165–186.
- Rupprecht, Tobias 2020: Pinochet in Prague. Authoritarian Visions of Economic Reforms and the State in Eastern Europe, 1980–2000, *Journal of Modern European History* 18(3): 312–323.
- Rutland, Peter 2023: The Contradictions in Putin’s Economic Nationalism. From Western Partner to Fortress Russia, *Russian Politics* 8(1): 24–47.
- Tsygankov, Andrei P. 2006: If Not by Tanks, Then by Banks? The Role of Soft Power in Putin’s Foreign Policy, *Europe-Asia Studies* 58(7): 1079–1099.
- Volkov, Vadim 1999: Violent Entrepreneurship in Post-Communist Russia, *Europe-Asia Studies* 51(5): 741–754.

“SCRIPTS Arguments” is a series serving to collect different perspectives of SCRIPTS members on central research questions of the Cluster of Excellence “Contestations of the Liberal Script (SCRIPTS)”. All SCRIPTS Arguments are available on the SCRIPTS website at [www.scripts-berlin.eu/publications/arguments](http://www.scripts-berlin.eu/publications/arguments)

The logo for SCRIPTS, with the word "SCRIPTS" in a stylized, multi-colored font (purple, blue, green, yellow).

CLUSTER OF EXCELLENCE

Contestations of the Liberal Script