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The Doctrine of Market Equality

Questions of Theory and Its Application to the Process of Postcommunist Transformation

Nowhere is the gap between rich and
poor wider, nowhere are the rich richer and
the poor poorer, than in those societies that
do not permit the free market to operate.
—Milton and Rose Friedman (*Free to Choose*, 1980)

Definition of the concept of equality

The cornerstone of social policy is to achieve equality, or at least an approximation therein. However, there is no single, generalized, widely accepted definition of equality. Several aspects of equality are distinguished: equality before God, equality of opportunity, and equality of results.[1] The term "inequality," which reflects a

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widespread public perception of the actual state of affairs in regard to equality, is more often used in practice. Socially, inequality is taken to mean conditions in which people do not have the same access to public goods, money, prestige, and power.[2]

We should also emphasize that the term "equal" does not mean "the same."[3] The same is always equal, but equal can mean the same only in exceptional cases.

We know that absolute equality among people is fundamentally impossible[4] because people differ from each other, first of all, in their physical characteristics, opportunities, and mental capabilities, that is, people are different by nature.[5] At the same time, as individuals they are equal before God, in that each is his own master insofar as he does not infringe upon the analogous rights of others.[6] Posing the question this way leads to a definition of equality of opportunity[7] in which no one has the right to arbitrarily prevent others from using their opportunities to achieve their goals.[8] And these opportunities should be determined exclusively by their capabilities, regardless of origin, nationality, color of skin, religion, gender, and so forth.[9] In practice, equality before God and equality of opportunity are protected by policies that defend the principle of equality before the law,[10] when each member of society has access to participation in democratic institutions, as a result of which a social world becomes possible.[11]

The idea of equality of (final) results became especially popular in the twentieth century.[12] As a rule, equality is now understood to mean a fair social distribution of goods.[13] However, the concept of fair distribution is very hard (or rather, impossible) to define, and the only way to explain its content is unrealistic in practice: when all members of society receive the "same share," which they will perceive as their "fair share."[14] Generalizing all of the possible approaches to defining equality of results, we can conclude that it is understood not as identity but proportionality of goods to the merits of each individual.[15] In our opinion, such a definition of equality of results harbors a veiled uncertainty: it is just as hard to define the concept of proportionality of distribution in the social sphere as it is to define the concept of fair distribution mentioned above.

At the theoretical level, contemporary economists as a rule understand equality as equality of opportunity,[16] in spite of the fact that for ordinary people equality is primarily about equality of income and property. So it should not be surprising that for the man on the street reform involves redistributing wealth in order to make the distribution of income and property more equal.[17] The danger is that such reforms and their associated rhetoric can ultimately destroy the economy. Measures to promote equality are typically followed by some people squandering their share, while others get rich, so that the problem of restoring equality is placed on the agenda once again, and so on. People with an improvident attitude toward their property in such circumstances have no incentive to change their behavior, and those who are frugal and industrious will not want to preserve these qualities.[18] International experience shows that, in the end there is no way, not even terror, to establish equality of results in society.[19] This has created an atmosphere of hopelessness, a belief that life is unfair, that it is not in the government's power to correct inequality,[20] and that there will always be inequality.[21] Equality of results can only be evaluated subjectively.[22]

The market, as the economic foundation of capitalism, is often recognized as the basis of inequality among people.[23] Not only were Karl Marx and his (conscious and unconscious) successors (communists) convinced of this; it can also be said to be held as truth in the contemporary Western economic worldview. Economics textbooks are the best evidence of this. The market is characterized as a dispassionate mechanism that has no conscience or moral standards. It is argued that markets lead to high levels of income inequality,[24] that equality of opportunity is just some fine talk of modern democracy, while in real life market conditions create rich and poor,[25] that the market distributes wealth unevenly and inequality is a consequence of capitalism, even though it is pointed out at the same time that the citizens of communist countries are also not equal.[26] However, their inequality is due to these countries' political system itself.[27] It is therefore not surprising that current economics textbooks,[28] not to mention textbooks on economic development[29] or labor economics,[30] place special significance to problems of income inequality.

This approach to the problem of equality is even more problematic in postcommunist countries, where the man in the street has trouble figuring out how much equality there should be in a market system.[31] We therefore need to analyze whether the market mechanism really is antithetical to the idea of equality, or just to the principle of equality of results. Rethinking this problem will make it possible to establish a new theoretical and political construct—*a doctrine of market equality*[32] which, among other things, is particularly important for the postcommunist transformation. As we know, there are two types of markets in economic theory: free and real (or functioning).[33] While the former is only an abstraction, a theoretical construct crystallized for research purposes, it is on the basis of this ideal model that the initial concept of market equality must be broken down.

Market equality in the free-market model

In their most concise form, the basic criteria of a free market can be formulated as follows.[34]

1. Absolutely unimpeded access to the market for buyers and sellers, and equally unimpeded departure from it, which is equivalent to having an unlimited number of participants in competition;
2. Absolute mobility of all types of resources (labor, material, financial);
3. Complete market information (on supply and demand, prices, etc.) for each competitor;
4. Absolutely uniformity and indistinguishability of similar products (there are no trademarks or any individual quality characteristics of goods);
5. Inability of any competitor to influence the decisions made by other market participants.

The basic principle in this system is laissez-faire as a result of which the efficiency of interrelations between businessmen and between businessmen and consumers, and the dynamics of private and public interests, are governed, in Adam Smith's terminology, by the "invisible hand," and which can be described as the theorem of efficiency of the "invisible hand."[35] These criteria allow us to analyze the equality of market agents and whether or not they interact with each other on equal terms.

According to the first criterion, all buyers and sellers are *equal* in terms of access to the market and departure from it, since each of them can do this absolutely unimpeded. Consequently, in free-market conditions, all buyers and sellers are equal from the point of view of being in the market. Absolute mobility of all types of resources *equalizes* free-market agents from the point of view of market-dictated change in their type of business. Complete market information for each competitor is no less important from the point of view of their *equality*, since this precludes the possibility of erroneous actions on their part due to incomplete information. Absolute uniformity and indistinguishability of products of the same kind puts all businessmen on *equal* footing in selling their own products, and all consumers on an equal footing in making their purchases. Because none of the competitors can impose their terms on other market agents, they have *equality* from the point of view of making decisions.

Thus, the free market model implicitly posits complete equality of opportunity for the agents participating in it. That is, *in free-market conditions, market equality means equality of opportunity for each agent from the point of view of being in the market, changing his type of business, access to complete information, production and purchase of products of the same kind, and decision making*. In short, we can say that a free market is a system of equality of opportunity.[36] Market equality will naturally be realized in practice in conditions of market equilibrium, when all of the opportunities that this equality offers are used to the fullest extent. Since such a free market is a theoretical construct, market equality in free-market conditions is also an ideal state, to which market regulation should aspire.

Market equality in a model of a pseudoreal market

In spite of the attractiveness of the free-market model, it is not capable of solving some very important problems, known as market failure.[37] Among these problems, the three primary ones are:[38]

1. externalities;
2. public goods (as well as significant quasipublic goods);
3. providing the economy with the necessary quantity of money.

Externalities are present when the actions of one person affect the welfare of others, in either a positive or negative way. When a person makes a decision to renovate the facade of his house, the result has a positive externality for others who receive aesthetic pleasure from the building's appearance. On the other hand, environmental degradation from chemical production creates negative externalities.

In both cases, the principle of equality of market agents is violated:

• in the former case, the person whose actions create the positive externality suffers a loss, insofar as the positive effect that is redistributed to others does not involve any effort on their part;

• in the latter case, everyone affected by the negative effect suffers a loss, insofar as whoever creates this negative externality (e.g., in the form of chemical production) receives an economic benefit, while the others are left in a worse situation (e.g., due to chemical wastes).

In order to minimize inequalities due to externalities, the government interferes in the market because the market is incapable of solving this problem on its own. In this situation, the government may use two methods: administrative regulation or internalization of the externality. According to the first method, a special government agency can either completely prohibit a certain negative effect (e.g., a prohibition on allowing chemical wastes to get into the drinking-water system and making this a crime), or set an upper limit on it (e.g., establishing maximum limits of chemical wastes for each chemical enterprise). The second method uses economic incentives to impose private costs on the creators of externalities. Internalization of negative externalities can take the form of special per unit taxes charged (e.g., per ton of chemical waste), which are known in the economic literature as Pigou taxes. Such taxes give the producers of negative externalities incentive to reduce this effect. As for internalization of positive externalities, the government can put subsidy mechanisms in place for this purpose, which provide an incentive for producers not to curtail them. By using these methods to reduce inequalities due to externalities, the government can make the inequalities less severe, although it cannot achieve full equality.

As we pointed out above, a free market is not capable of producing public goods, since the marginal costs associated with additional consumption of these goods are zero. Public goods can therefore be used without any incurring cost in doing so.[39] Since the private sector has no direct interest in producing them, this has to be done by the public sector. Consequently, public goods are carriers of positive externalities, which contribute to inequality. Noncompetitive or nonexclusive goods (e.g., streets and highways, police and fire departments, libraries and museums) are known as quasipublic.[40] They can be produced by the private sector, but in insufficient quantities due to the positive externalities. This forces the public sector to join in the production of quasipublic goods.[41]

Equality is the government's basic principle in the production of public (and quasipublic) goods: these goods should be equally accessible to all members of society. Public goods associated with egalitarianism,[42] that is, the social solidarity that is associated with supporting the disadvantaged, are particularly important in this respect.[43] The attainment of so-called vertical equality,[44] through social transfers that provide for a social safety net, unemployment and veterans' benefits, government programs for free health care, public housing, and the like, is justification for producing egalitarian public goods.

The third important generally acknowledged problem is that the free market is incapable of providing the economy with the necessary quantity of money (although it has been shown theoretically that it is not only possible but also economically more efficient to transfer this function from the government to the market).[45]

In addition to these three basic problems, the government is obliged to promote free competition by eliminating barriers to market entry, in order to promote the free dissemination of market information and unobstructed flow of capital.[46] The government has particularly important functions here, such as creating a legal framework and social atmosphere to support the functioning of the market system and stabilize the economy (primarily by achieving low levels of inflation and high levels of employment).[47] The government also regulates international economic relations, prevents potential conflicts between economic agents within the country, directly manages the economy in emergency situations (e.g., during a war),[48] and devises long-term development programs.[49] Consequently, in the conditions of a real market, Adam Smith's "invisible hand" is replaced by the "visible hand" of the state.[50]

Externalities, inadequate supplies of public goods, and restrictions on flows of information and capital by monopoly entities prevent markets from ensuring equality of opportunity for its participants. Market equality is thereby disturbed.[51] In this case, the state should minimize deviations from free-market principles and maximize market equality. Since in reality the "visible hand" of the state itself often impedes market equality,[52] policies devoted to achieving market equality are the same kind of theoretical construct (and just as necessary) as the free-market model. To differentiate the market model described above from the real market, we will call the former a *model of a pseudoreal market*, in the "visible hand" of the state is not only called upon to minimize market inequality, but actually does so.

Market equality in real-market conditions

There is more than one textbook on the activity of the "visible hand" of the state that presents the generalized rich experience of studying this problem in a concentrated form.[53] The best tool for analyzing the capability and efficiency of the "visible hand" of the state is "public choice theory,"[54] which explains why a pseudoreal market differs from the real one. The underlying principle of public choice theory is that people act the same in their role as public figures as they do as individuals.[55] The "visible hand" of the state is seen as the "visible" action of high government and political officeholders. If the actions of this "visible hand" do not minimize inequality, then, other conditions being equal, this is due to the people who took up the burden of performing the function of the "visible hand" of the state and in so doing have disgraced it.

The term *homo economicus* (economic man) has been adopted in the economics literature to describe a person acting in conditions of a market economy.[56] *Homo economicus* pursues self-interest in his actions; as a consumer, he tries to maximize utility through his rational action; and as an entrepreneur, profit. Disputes about the existence of *homo economicus* began back in the nineteenth century. Some economists argue that he has disappeared,[57] others respond that he exists.[58] While the economic incentives motivating a person's behavior in a mature market system have fundamentally changed,[59] we must admit that the pursuit of self-interest remains unchanged. For these reasons, the concepts of "rational man"[60] (although actually "any rational action is economic")[61] and "institutional economic man" (or, in short, "institutional man,"[62] that is, "contractual man"[63]) are being used more and more often in economic science.

Public choice theory argues that public officeholders are also motivated primarily by considerations of personal gain.[64] This implies political rent seeking, which means seeking and protecting economic rent (i.e., payments for a share of some production factor exceeding its alternative cost).[65] Subsidies are the most graphic example of political rent. Subsidies allow *homo economicus* holding public office to obtain support in elections from voters who are the recipients of these subsidies and thus to receive political rent.[66] This is despite the fact that these subsidies are intended to internalize positive externalities, which should signal their creators not to curtail these externalities. Political officeholders' restrictions on competition by imposing taxes, as well as systems of bans, quotas, and licensing on imports, are also striking examples of political rent seeking. These policies distort market prices and create political rent,[67] thereby disturbing market equality. The most inhumane example of disturbance of market equality is economic discrimination,[68] which is manifested in the fact that individuals of different race, nationality, gender, and/or age have different opportunities[69] to get jobs, be promoted, receive adequate pay and raises, get an education, and so forth.[70]

Theories of economic discrimination differ according to the perceived source of discrimination. According to one theory, discrimination comes from personal bias; according to another, from statistical bias; and to a third, monopoly power.[71] Still, it is widely understood that discrimination is associated with buyers and with the "visible hand" of the state.[72] Discrimination by buyers is based on prejudice, and it is difficult to justify on economic grounds because discrimination as such is economically unprofitable for businessmen.[73] For example, catering to racist buyers means that a white employee has to be paid more, which distorts market prices and takes away part of the businessman's profits. This ultimately harms the economy as a whole.[74]

In order to seek political rent, when public officeholders introduce policies on the basis of such prejudices, they are legitimizing discrimination. The recipient of political rent, for example, in a racist government is the white population. Although the existence of discrimination was formally denied in the former communist countries, it is now understood that this was not the case due to gender and ethnic inequality. In addition to other problems, this one needs to be resolved in the process of postcommunist transformation.[75]

Among the ways of obtaining political rent, lobbying (when, based on propaganda for a certain policy, people in power put into practice measures that favor the interests of their backers [voters]), and logrolling (when legislators trade votes in order to reach particular outcomes) are worthy of particular attention.[76] Consequently, in the final analysis, realization of the government's official goals leads to both predicted and unforeseen consequences.[77]

The theory of "public choice" explains why the "visible hand" of the state is incapable, in many cases, of accomplishing its basic purpose: eradication of market inequality. When local authorities initiate particularly unacceptable manifestations of market inequality, the "invisible foot" effect begins to operate in the form of people changing their place of residence in order to improve their living and working conditions.[78] The situation is somewhat more complicated when unacceptable manifestations of market inequality are initiated by central authorities, but now even this can be overcome, because the "invisible foot" effect is also manifested at the international level, when people migrate from one country to another.

In conditions of the real market, market mechanisms are key to overcoming market inequality.[79] Market equality can only be established on the basis of market democracy. So the key function of the "visible hand" should be to weaken as much as possible the forces obstructing the free market, via the establishment of democratic institutions. This is a rather difficult task, involving not only economic problems but also national, historical, cultural, and social issues.

Market equality during the postcommunist transformation

The problem of market equality is especially critical for countries in the process of postcommunist transformation because the market as such is itself in the formative stage. And because the market is not yet fully formed, it is almost impossible to have market equality. At the same time, because the market is in the formative stage, steering a proper course toward the ideals of market equality from the very beginning is particularly important.

The quest to achieve equality of results was a distinguishing feature of the communist period. Realization of this principle was seen as the highest achievement of the economic system, and all state institutions promoted equality of results and the creation of a new "socialist man" to this end,[80] even though in reality there was no equality of results. Indeed, as we pointed out above, there can be none in principle.

The type of man who faced the collapse of the existing economic system and the start of the postcommunist transformation was *homo soveticus.*[81] He had been completely deprived of his human rights by the state, and was totally dependent on state bureaucrats to take pity on him and help him to meet his basic needs. This type of man is characterized by practical, nonmarket behavior. The postcommunist transition to a market economy can therefore be seen as a process of transforming *homo soveticus* into *homo economicus*.[82]

Partially because of privatization, but mostly thanks to newly created private organizations, *homo economicus* gradually began to appear in the course of the transition. Such people, unfortunately, do not constitute the majority in postcommunist society, and do not set the political and economic climate. The majority is instead represented by those who subconsciously fear the state and expect it to help them, while at the same time demanding freedom of action and a democratic government. These are individuals who have not been able to completely free themselves of the principle of equality of results while beginning to aspire to the principle of equality of opportunity. Such a man, *homo transformaticus,*[83] is the driving force in the process of postcommunist transformation.

In postcommunist countries, among those who call themselves entrepreneurs are former party and managerial figures and directors of enterprises. In their behavior it is hard to find the qualities seen in Western entrepreneurs. Having become the owners of enterprises, many of these holdovers (they are often called "red directors") act the same as they did in the past. Exaggerated earnings or other distortions of financial reports, theft on the job, bribery, and so forth, have not yet been rooted out. These people continue to try to live off the state. They become members of parliament, force their way into the government or push in their own people in order to enact laws and make decisions that benefit them economically. In communist times, someone like this was called a *delets*, which had a negative connotation in the mind of *homo soveticus*. In the initial stage of the postcommunist transformation, a *delets* was unlikely to turn into an entrepreneur. As a representative of homo transformaticus, a *delets* put on a market and democratic guise, but underneath he remained the same. Therefore, the entrepreneurs that did appear in postcommunist countries as a result of "nomenklatura privatization" are more accurately called *postdeltsy* [plural of *postdelets*].[84]

In conditions of more or less mature market relations, public office is generally held by people of the *homo economicus* type. In postcommunist societies by contrast, these officeholders are of the *homo tranformaticus* type. Since during the postcommunist transformation the new institutions needed for a market economy are still in their formative stage,[85] the political rent-seeking mechanisms that take hold during this time diverge from those found in mature market systems. In a postcommunist society, political rent seeking takes four basic forms: speculation,[86] subsidization of imports, soft credits, and nomenklatura privatization. Together they determine the "rent-seeking behavior"[87] of *homo transformaticus.* These four types of behavior are characterized as follows:[88]

1. From the beginning of the postcommunist transformation, when not all prices had yet been freed, public officeholders and/or their representatives bought up cheap goods in short supply and resold them at the market price.

2. At the beginning of the transformation, due to the multiplicity of exchange rates, public officeholders and/or their representatives bought foreign exchange cheaply and then sold imported goods at the market price.

3. In the initial stage of the transformation, the system of soft government loans was still in place. The only people who received

these loans were public officeholders and/or their representatives.

4. Public officeholders artificially lowered the prices of assets being privatized in a non-transparent manner, thanks to which these very people or their representatives, or those who paid them a bribe, became the new owners.

The economic roots of this rent-seeking behavior lie in the fact that the communist system itself was by nature a peculiar form of kleptocracy.[89]

According to the well-known Peruvian economist Hernando de Soto, a state that is excessively bureaucratized, ignores laws and practices and is engaged in redistributing national income (rather than creating the conditions needed for its production), can be classified as mercantilist.[90] Since the "visible hand" of a mercantilist state was needed to begin the postcommunist transformation, prospects for market equality were not good from the very beginning. As the transformation develops and the institutional vacuum begins to be filled, these types of political rent seeking give way to types more typical of a market economy. After prices are liberalized, exchange rates unified, the system of soft loans abolished, and mass privatization completed, these sources of political rent cease to exist. Progress toward attaining the ideal of market equality depends on the extent to which free market and democratic principles are observed.

Economic policy for market equality

Economic policy is very important for achieving market equality. Economic policy is based on particular schools of political philosophy, among which we can distinguish utilitarianism, liberalism, and libertarianism.[91] All three of these schools rule out the principle of income equality, although according to the first two economic policy should be aimed at bringing incomes toward a certain optimal level.

As a political philosophy, utilitarianism stems from the principle that the state should try to maximize total social utility, where utility is understood as a specific person's level of happiness or satisfaction, and is expressed in units of welfare. The assumption of diminishing marginal utility suggests that taking one dollar away from a rich person reduces his utility less than giving it to a poor person raises the latter's utility. Consequently, such income redistribution can raise total social utility. The greatest difficulty in this scheme lies in finding the optimal limit of redistribution, beyond which a person loses the incentive to create wealth, causing the whole society to suffer. Repeated violations of this limit on the part of the government are, unfortunately, not so rare. This suggests that pursuing utilitarian redistributive policies during postcommunist transformation—when the state has no relevant practical experience in utilitarian redistribution, and, when homo transformaticus still harbors nostalgia for the former pseudoequality of incomes—is very risky. The likelihood of violating the optimal limit of income redistribution is very high.

According to the underlying principle of liberalism, the state should pursue a policy of supporting fairness. But since defining fair distribution is impossible, the practical implementation of a liberal economic policies generally reflects an emphasis on maximizing the welfare of the poorest members of society (the minimax criterion). (By contrast, utilitarian economic policies seek to maximize the average utility of members of society.)

Libertarianism as a political philosophy is based on the principle that the state's primary duty is to punish criminals and assist in the implementation of voluntary agreements, but *not* to redistribute income. The goal of a libertarian economic policy is to protect human rights and provide equality of opportunity. *Economic policies in support of market equality are therefore based on libertarianism*.

The advantages of libertarian economic policies are apparent in the case of discrimination. The so-called doctrine of comparable worth, according to which work needs to be classified according to objective criteria (level of education, experience, responsibility, working conditions, etc.) and then the government should legislate appropriate pay, is an alternative philosophy to that of libertarianism.[92] In this case, the government is most likely increase pay for some occupations above equilibrium levels, as a consequence of which the supply of workers in that occupation will increase, and so will the level of unemployment among them.[93] A libertarian economic policy argues that the best way to overcome discrimination is through a competitive market, because in this case, in order to make more profit businesses will hire those who will work most cheaply. This will ultimately raise their pay, thereby eliminating the discrimination.[94]

One may ask, does a libertarian economic policy rule out social protection of the population? It is true that in conditions of a competitive market the poor have far more limited opportunities than the rich. But the poor are much freer in such a society than a more prosperous person living in another type of society.[95] At the same time, free competition in no way precludes the realization of social and cultural goals, either in the form of private charitable activities or via special government assistance.[96] The main thing here is for the government to focus on equality of opportunity rather than on income redistribution, while at the same time providing the public good of social stability.

Is pursuit of libertarian economic policies during postcommunist transformation appropriate? The fact that homo transformaticus is the primary actor in the process of postcommunist transformation dooms the use of libertarian economic policies in pure form to failure, because with his mentality he is not yet fully prepared to exist exclusively in a competitive system. *Economic policies in postcommunist countries should therefore combine elements of libertarianism and liberalism, provided that the former is predominant*. Libertarian economic policies will help the postcommunist transformation move toward the ideal of market equality, while the liberal economic policies supplementing them will allow society to avoid social tension and possible social explosions. The ultimate outcome would be the establishment of horizontal equality,[97] which in this context means:

• No businessman should experience more formal or informal support from the "visible hand" of the state than any other. This should be expressed in maximum noninterference of the state in commercial activity, combined with appropriately severe punishment for all lawbreakers.

• Social assistance from the state should be targeted at the poorest class of society.

Only in such circumstances can members of the middle class have the opportunity, through maximum application of their intellectual and physical capabilities, to gradually make a decent life for themselves. To do this, the government needs to intensify its fight against corruption, legalize shadow businesses,[98] and accelerate the creation of democratic institutions. This will gradually move society closer to the ideal of market equality—equality of opportunity.

Notes

1. M. Fridman [Friedman] and R. Fridman [Friedman], "Svoboda, ravenstvo i egalitarizm" [Freedom, Equality and Egalitarianism], in *Fridman i Khaiek o svobode* [Friedman and Hayek on Freedom], ed. G.S. Lisichkin (Minsk: Polifakt-Referendum, 1990), pp. 69–92.

2. M.K. Bunkina and A.M. Semenov, *Ekonomicheskii chelovek: v pomoshch′ izuchaiushchim ekonomiku, psikhologiiu, menedzhment* [Economic Man: Aid to Students of Economics, Psychology and Management] (Moscow: Delo, 2000), p. 71.

3. Fridman and Fridman, "Svoboda, ravenstvo i egalitarizm," pp. 74, 78–79.

4. See, for example, P. Sorokin, *Chelovek. Tsivilizatsiia. Obshchestvo* [Man. Civilization. Society] (Moscow: Politizdat, 1992), pp. 252–53.

5. L. fon Mizes [von Mises], *Sotsializm. Ekonomicheskii i sotsiologicheskii analiz* [Socialism. An Economic and Sociological Analysis] (Moscow: Catallaxy, 1994), p. 56.

6. Fridman and Fridman, "Svoboda, ravenstvo i egalitarizm," pp. 71–72.

7. Ibid., p. 75.

8. Ibid., p. 70.

9. Ibid., p. 75.

10. Ibid.

11. fon Mizes, *Sotsializm*, p. 56.

12. Fridman and Fridman, "Svoboda, ravenstvo i egalitarizm," pp. 71–72.

13. N.G. Menk′iu [Mankiw], *Printsipy ekonomiks* [Principles of Economics] (St. Petersburg: Piter Kom, 1999), p. 31.

14. Fridman and Fridman, “Svoboda, ravenstvo i egalitarizm,” p. 79.

15. Sorokin, *Chelovek. Tsivilizatsiia. Obshchestvo*, p. 253.

16. J.E. Roemer, *Egalitarian Perspectives. Essays in Philosophical Economics* (Cambridge: Cambridge University Press, 1996), p. 179.

17. von Mizes, *Sotsializm*, p. 177.

18. Ibid.

19. Fridman and Fridman, “Svoboda, ravenstvo i egalitarizm,” p. 80.

20. Ibid., p. 82.

21. F.A. Khaiek [Hayek], “Kto kogo?” [Who Whom?], in Lisichkin, ed., *Fridman i Khaiek o svobode*, p. 106.

22. von Mizes, *Sotsializm*, p. 280.

23. Fridman and Fridman, “Svoboda, ravenstvo i egalitarizm,” p. 95.

24. K.R. Makkonnell [C.R. McConnell] and S.L. Briu [Brue], *Ekonomiks: printsipy, problemy i politika* [Economics: Principles, Problems and Policies], vol. 2 (Moscow: Respublika, 1992), p. 279.

For more on income inequality in contemporary conditions in developed market economies, see, for example: A.B. Atkinson, “The Distribution of Income in Industrialized Countries,” in *Income Inequality: Issues and Policy Options*, a symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August 28–30, 1998. We must note here that the effect of income inequality on the economy and its various parameters is a very complex and multifaceted problem. See, for example, J. Furman and J.E. Stiglitz, “Economic Consequences of Income Inequality,” in *Income Inequality*.

25. P.A. Samuelʹson [Samuelson] and V.D. Nordkhaus [W.D. Nordhaus], *Ekonomika* [Economics] (Moscow: BINOM, 1999), p. 399.

26. See also, for example, B. Milanovic, *Income, Inequality and Poverty During the Transition from Planned to Market Economy* (Washington, DC: World Bank, 1998), pp. 12–22.

27. Menkʹiu, *Printsipy ekonomiks*, pp. 246–47.

28. Makkonnell and Briu, *Ekonomiks*, vol. 2, ch. 37; S. Fisher [Fischer], R. Dornbush [Dornbusch], and R. Shmalenzi [Schmalensee], *Ekonomika* [Economics] (Moscow: Delo, 1993), ch. 20; Samuelʹson and Nordkhaus, *Ekonomika*, ch. 20; Menkʹiu, *Printsipy ekonomiks*, ch. 20.

29. For example, M.P. Todaro, *Ekonomicheskoe razvitie* [Economic Development] (Moscow: IuNITI, 1997), ch. 5; E.W. Nafziger, *The Economic of Developing Countries* (Upper Saddle River, NJ: Prentice Hall, 1997), ch. 6.

30. R.Dzh. Erenberg [R.G. Ehrenberg] and R.S. Smit [Smith], 1996. *Sovremennaia ekonomika truda. Teoriia i gosudarstvennaia politika* [Modern Labor Economics. Theory and Public Policy] (Moscow: Izdatelʹstvo Moskovskogo gosudarstvennogo universiteta, 1996), ch. 15.

31. The problem is also exacerbated by the fact that in the process of postcommunist transformation, especially in the initial stage, income inequality becomes particularly perceptible (Milanovic, *Income, Inequality and Poverty*, pp. 40–59).

32. V. Papava, “Doktrina rynochnogo ravenstva: voprosy teorii i ee prilozheniia k protsessu postkommunisticheskoi transformatsii” [The Doctrine of Market

Equality: Questions of Theory and Its Application to the Process of Postcommunist Transformation], *Obshchestvo i ekonomika*, 1999, no. 12.

33. In our opinion, a pseudoreal market, when the "visible hand" of the state operates ideally, needs to be separated from the category of real markets. This question will be addressed in detail below.

34. See, for example, A.Ia. Livshits, *Vvedenie v rynochnuiu ekonomiku* [Introduction to Market Economics] (Moscow: Kvadrat, 1991), pp. 5–6.

35. N. Barr, "Rol´ gosudarstva v rynochnoi ekonomike" [The Role of Government in a Market Economy], in *Rynok truda i sotsial´naia politika v Tsentral´noi i Vostochnoi Evrope. Perekhodnyi period i dal´neishee razvitie* [The Labor Market and Social Policy in Central and Eastern Europe. the Transition Period and Subsequent Development], ed. N. Barr (Moscow: IKTs DIS, 1997), pp. 72–73.

36. Fridman and Fridman, "Svoboda, ravenstvo i egalitarizm," p. 95.

37. E.G. Dolan and D.E. Lindsei [Lindsey], *Rynok: mikroekonomicheskaia model´* [The Market: A Microeconomic Model] (St. Petersburg: Avtokomp Russian-British joint enterprise, 1992), pp. 92–96.

38. Livshits, *Vvedenie v rynochnuiu ekonomiku*, pp. 11–15.

39. This phenomenon is known as the free-rider problem (see, for example: Makkonnell and Briu, *Ekonomiks*, vol. 1, p. 100; Fisher, Dornbush, and Shmalenzi, *Ekonomika*, p. 64).

40. Makkonnell and Briu, *Ekonomiks*, vol. 1, p. 100.

41. Club goods, where a club is understood as a voluntary association of people to obtain common use or benefit on a shared basis, are a variety of quasipublic goods. By their nature, club goods are public (because they are used equally by all of the club members), but membership fees or dues and other possible restrictions make it possible to localize these goods within a given private group, which in principle precludes the need for the public sector to interfere in the production of these goods (R. Cornes and T. Sandler, *The Theory of Externalities, Public Goods and Club Goods* [Cambridge: Cambridge University Press, 1996], pp. 33–34).

42. Egalitarian goods should not be confused with the concept of egalitarianism, which is understood as the concept of equality of results as the ultimate goal (Fridman and Fridman, "Svoboda, ravenstvo i egalitarizm," p. 87).

43. V. Papava, "Rol´ gosudarstva v sovremennoi ekonomicheskoi sisteme" [The Role of the State in the Modern Economic System], *Voprosy ekonomiki*, 1993, no. 11, pp. 36–37; V. Papava, "A New View of the Economics Ability of the Government, Egalitarian Goods and GNP," *International Journal of Social Economics*, 1993, vol. 20, no. 8, pp. 58–60; V. Papava, "The Role of the State in the Modern Economic System," *Problems of Economic Transition*, 1994, vol. 37, no. 5, pp. 39–40.

44. Barr, "Rol´ gosudarstva v rynochnoi ekonomike," p. 59.

45. F.F. Khaiek [Hayek], *Chastnye den´gi* [Private Money] (Moscow: INME, 1996).

46. For example L. Shirliaeva and N. Mamedova, "Neoklassicheskaia model´ gosudarstvennogo regulirovaniia rynochnykh otnoshenii" [The Neoclassical Model of Government Regulation of Market Relations], *Rossiiskii ekonomicheskii zhurnal*, 1992, no. 4, pp. 104–8.

47. Makkonnell and Briu, *Ekonomiks*, vol. 1, pp. 95–96, 101.

48. L. Iokhansen [Johansen], *Ocherki makroekonomicheskogo plannirovaniia* [Lectures on Macroeconomic Planning], vol. 1 (Moscow: Progress, 1982), pp. 36–37.

49. V. Leont´ev [Leontiev], *Ekonomicheskie esse* [Economic Essays] (Moscow: Politizdat, 1990) pp. 394–405.

50. G. Sirkin, *The Visible Hand: The Fundamentals of Economic Planning* (New York: McGraw-Hill, 1968).

51. We must point out that, in addition to these forces that disturb market equality, other forces act to support it. In particular, mass industrial products and mass purchasing power tend to make consumers equal (P. Kozlovski [Kozlowski], *Etika kapitalizma (s kommentariiami Dzh. Bukenena). Evolutsiia i obshchestvo: Kritika sotsiobiologii* [Ethics of Capitalism and Critique of Sociobiology. Two Essays with a Comment by James M. Buchanan] (St. Petersburg: Ekonomicheskaia shkola, 1996), pp. 54–55.

52. Dolan and Lindsei, *Rynok: mikroekonomicheskaia model´*, p. 98.

53. E.B. [A.B.] Atkinson and Dzh.E. Stiglits [J.E. Stiglitz], *Lektsii po ekonomicheskoi teorii gosudarstvennogo sektora* [Lectures on Public Economics] (Moscow: Aspekt Press, 1995); Dzh.E. Stiglits [J.E. Stiglitz], *Ekonomika gosudarstvennogo sektora* [Public Economics] (Moscow: Izdatel´stvo Moskovskogo gosudarstvennogo universiteta, INFRA-M, 1997); L.I. Iakobson, *Ekonomika obshchestvennogo sektora. Osnovy teorii gosudarstvennykh finansov* [Public Economics. Principles of the Theory of Public Finances] (Moscow: Aspekt Press, 1996).

54. Dzh. Bukenen [J. Buchanan] and G. Tallok [Tullock], "Raschet soglasiia. Logicheskie osnovaniia konstitutsionnoi demokratii" [The Calculus of Consent. Logical Foundations of Constitutional Democracy], in Dzh. M. Bukenen [J.M. Buchanan], *Sochineniia* [Collected Works], series "Nobel Laureates in Economics," vol. 1 (Moscow: Taurus-Al´fa, 1997).

55. Dolan and Lindsei, *Rynok*, p. 359.

56. V.S. Avtonomov, "Model´ cheloveka v burzhuaznoi politicheskoi ekonomiki ot Smita do Marshala" [The Model of Man in the Bourgeois Political Economy from Smith to Marshall], in *Istoki (Voprosy istorii narodnogo khoziaistva i ekonomicheskoi teorii)* [Sources (Questions of the History of the Economy and Economic Thought)], no. 1 (Moscow: Ekonomika, 1989); V.S. Avtonomov, "Poisk novykh reshenii (model´ cheloveka v zapadnoi ekonomicheskoi teorii 1900–1920-kh godov)" [The Search for New Solutions (The Model of Man in Western Economic Theory of the 1900–1920s)], in *Istoki (Voprosy istorii narodnogo khoziaistva i ekonomicheskoi teorii)*, no. 2 (Moscow: Ekonomika, 1990); V.S. Avtonomov, *Model´ cheloveka v ekonomicheskoi nauke* [The Model of Man in Economic Science] (St. Petersburg: Ekonomicheskaia Shkola, 1998); Bunkina and Semenov, *Ekonomicheskii chelovek*.

57. G.P. Brockway, *The End of Economic Man* (New York: Norton, 1995).

58. F. Hahn. *Equilibrium and Macroeconomics* (Cambridge: MIT Press, 1984), p. 68.

59. E. Kochetov, "Neoekonomika—novaia tsivilizatsionnaia model´

ekonomicheskogo razvitiia" [Neoeconomics—A New Civilization Model of Economic Development], *Mirovaia ekonomika i mezhdunarodnye otnosheniia*.

60. Bunkina and Semenov, *Ekonomicheskii chelovek*, p. 11.

61. L. fon Mizes [von Mises], *Individ, rynok i pravovoe gosudarstvo* [The Individual, Market and Government of Law] St. Petersburg: Pnevma, 1999), pp. 46–48.

62. V. Papava and N. Khaduri, "On the Shadow Political Economy of the Post-Communist Transformation: An Institutional Analysis," *Problems of Economic Transition*, 1997, vol. 40, no. 6, p. 27.

63. O.I. Uil′iamson [O.E. Williamson], *Ekonomicheskie instituty kapitalisma: firmy, rynki, "otnoshencheskaia" kontraktatsiia* [The Economic Institutions of Capitalism: Firms, Markets, "Relational" Contracting] (St. Petersburg: Lenizdat, CEV Press, 1996), ch. 2.

64. Dolan and Lindsei, *Rynok*, p. 359.

65. Ibid., p. 99.

66. Ibid.

67. Ibid., pp. 99–100.

68. Nobel laureates in economics G.S. Bekker ([G.S. Becker], *The Economics of Discrimination* [Chicago: University of Chicago Press, 1971] and M. Fridman [M. Friedman], *Capitalism and Freedom* [Chicago: University of Chicago Press, 1998], ch. 7) have made a special contribution to the problem of economic discrimination.

69. Menk′iu, *Printsipy ekonomiks*, p. 415.

70. Makkonnell and Briu, *Ekonomiks*, vol. 2, p. 308.

71. Erenberg and Smit, *Sovremennaia ekonomika truda*, pp. 463–79.

72. Menk′iu, *Printsipy ekonomiks*, p. 419.

73. It must be noted that discrimination may be based on the bias not only of consumers but also of the employees themselves (Erenberg and Smit, *Sovremennaia ekonomika truda*, pp. 464–71).

74. Based on calculations done on the example of the United States, with the given level of labor productivity, the U.S. economy loses approximately 4 percent of its output as a result of the high level of unemployment among blacks and the inaccessibility of vocational education for them (Makkonnell and Briu, *Ekonomiks*, vol. 2, pp. 310–11).

75. M. Meurs, "Imagined and Imagining Equality in East Central Europe: Gender and Ethnic Differences in the Economic Transformation of Bulgaria," in *Theorising Transition. The Political Economy of Post-Communist Transformations*, ed. J. Pickles and A. Smith (London: Routledge, 1998).

76. Dolan and Lindsei, *Rynok*, p. 366–69.

77. Ibid., p. 27.

78. Fisher, Dornbush, and Shmalenzi, *Ekonomika*, pp. 392–93.

79. It must be noted that the market mechanism is based on pricing, which depends only on monetary demand and solvency, eliminates all class and personal privileges, and thereby has an equalizing effect in sociological relations (Kozlovski, *Etika kapitalizma*, p. 55).

80. For example, J.C. O'Brien, *The Communist Credo: Man Is the Measure of All Things* (Fresno: California State University, 1989); E.A. Kiseleva and M.N. Chepurin, eds., *Osnovy teorii perekhodnoi ekonomiki (vvodnyi kurs)* [Principles of the Theory of the Transition Economy (Introductory Course)] (Kirov: KOT, 1996), pp. 77–82.

81. A.V. Buzgalin, *Perekhodnaia ekonomika: kurs lektsii po politicheskoi ekonomiki* [The Transition Economy: Lecture Course on Political Economics] (Moscow: Taurus, 1994), pp. 250–53; Kiseleva and Chepurin, *Osnovy teorii perekhodnoi ekonomiki*, pp. 82–86.

82. V. Papava, "The Georgian Economy: From 'Shock Therapy' to 'Social Promotion,'" *Communist Economics and Economic Transformation*, 1996, vol. 8, no. 8, pp. 260–62; V. Papava, "'Social Promotion' of Economic Reform in Georgia," *Economic Systems*, 1996, vol. 20, no. 4, pp. 307–9; R.V. Ryvkina, *Ekonomicheskaia sotsiologiia perekhodnoi Rossii. Liudi i reformy* [Economic Sociology of Russia in Transition. People and Reforms] (Moscow: Delo, 1998), pp. 260–80.

83. Papava, "The Georgian Economy," pp. 260–62; Papava, "'Social Promotion' of Economic Reform in Georgia," pp. 307–9; V. Papava and E. Chikovani, eds., "Georgia: Economic and Social Challenges of the Transition," *Problems of Economic Transition*, 1997, vol. 40, nos. 7/8, pp. 9–11.

84. Papava and Khaduri, "On the Shadow Political Economy of the Post-Communist Transformation," p. 29.

85. Ibid., pp. 16–21.

86. According to Ludwig von Mises, "an entrepreneur is always a speculator" (fon Mizes, *Individ, rynok i pravovoe gosudarstvo*, p. 74).

87. A. Oslund [Aslund], "'Rent-seeking Behavior' in the Russian Transition Economy," *Voprosy ekonomiki*, 1996, no. 8.

88. Ibid., pp. 101–2.

89. Ibid., p. 104.

90. E. [H.] de Soto, *Inoi put´. Nevidimaia revoliutsiia v tret´em mire* [The Other Path. The Invisible Revolution in the Third World] (Moscow: Catallaxy, 1995), pp. 248–83.

91. Menk´iu, *Printsipy ekonomiks*, pp. 434–38.

92. The government develops social programs to combat discrimination that, on the one hand, prohibit discrimination on the part of employers, and, on the other, compel them to give representatives of discriminated groups equal opportunity in hiring (Erenberg and Smit, *Sovremennaia ekonomika truda*, pp. 479–95).

93. Menk´iu, *Printsipy ekonomiks*, pp. 420, 422.

94. Ibid., pp. 417–18.

95. Khaiek, "Kto kogo?" p. 102. Here we should note that in a purely economic sense freedom precludes equality (Bunkina and Semenov, *Ekonomicheskii chelovek*, p. 74).

96. Fridman and Fridman, "Svoboda, ravenstvo i egalitarizm," p. 86.

97. Barr, "Rol´ gosudarstva v rynochnoi ekonomike," p. 59.

98. Speaking at the annual session of the World Bank and the International Monetary Fund in 1989, former president of the United States George Bush indicated the need to carry out this process. In particular, he said, “the poor . . . who have never read Jefferson or Adam Smith, ran their affairs democratically, outside the formal economy, organizing their private, parallel economy in a free and unregulated manner. . . . Governments must bring the ‘informal’ workers into the regular economy and then get out of the way and let individual enterprise flourish” (quoted in de Soto, *Inoi put´*, p. 5).