

BUREAUCRACY, Ludwig von Mises, 2005, Institute of Public Finance, Zagreb, 150 pp.

Review\*

Croatia is in the process of selecting its future route to social and economic development. The selection that the country makes today will have irreversible consequences for tomorrow. Hence it is essential for the population to understand the differences among forms of institutional organisation from among which they can choose. The book *Bureaucracy* of Ludwig von Mises has strong arguments in favour of choosing institutions based on the rule of law and the limitation of governmental authority. Unfortunately, though, the rule of law is not a free lunch, but has to be paid for, that is, it is not an institutional alternative that the nation can plump for quite unproblematically.

Instead of giving a standard review of *Bureaucracy*, I shall adduce a few of the reasons that create difficulties in the application of Mises' ideas in most of the transition countries, including Croatia. The first reason is the long arm of the past. Since one form of non-elective institutional system replaced another (first of all the medieval, then again in 1918 and 1941, and then finally in 1945), the right of the people in Croatia to choose the institutional form they wanted was disregarded. Thus the most important consequence of the long history of arbitrary rule and the relatively lavish welfare state and policy in Croatia is the state-dependence culture. On the other hand, the rule of law and limited government authority means the absence of discretionary power on the part of the ruling elite, and so the state is understood as a predator that can be tamed only by rule of law. Transition to the rule of law clearly requires the ruling elite to be both desirous and capable of providing the people the ability to learn a new manner of life in a society of free and responsible individuals.

The second reason why it is hard to implement Mises' ideas in most post-socialist countries, including in Croatia, is the nature of the ruling elite. While the old system has gone with the wind, the old ruling elite managed to keep hold of the reins of power. This is a group of people whose comparative advantages are in a policy inclined to state regulation, intervention from on top and a redistribution of income. Even those who are consistent in carrying out reforms of the free market grew up in the culture of collectivism and a lavish state. This means that whenever serious problems arrive, they intuitively look to the state for a solution. With respect to the comparative advantages of state interventionism,

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the old bureaucracy is more inclined to the German model of the welfare-market economy, based on state management, than the Anglo-Saxon model that, in line with Mises' views, prioritises the protection of individual rights over the rule of the many, stable and credible rights of property, free trade, independent judiciaries and principles of individual behaviour based on the interest, responsibility and determination of the individual. What is more, the members of the old ruling elites in most of the post-socialist states (the most important are the Estonian prime minister Mart Laar and the Czech former prime minister and now president Vaclav Klaus) are more inclined to the stagnating welfare states of old Europe than to taking the risks involved in carrying out social and economic reforms that will lead to the development of a society based on free and responsible individuals.

For example, Grzegorz Kolodko<sup>1</sup>, a one time expert for state planning, who became an "expert in transition" wrote as follows: "If there is a choice between the spontaneous development of these [free-market] institutional systems and the possibility of them being governed by the government, the second possibility is better for post-socialist countries... even although small government is sometimes better than big government, it can sometimes not be reduced without the creation of economic difficulties and a lowering of the standard of living." The first part of this Kolodko quote is social engineering of the worst kind. The second part of the same quotation shows the inability of the former socialist planners to understand the fact that the overlarge governments of the past decades were responsible for all the problems that the countries of CE Europe, including Croatia, are having to cope with today.

It is important to compare Kolodko's vision of the role of governmental authority in the economy with that of George Stigler, winner of the Nobel Economics prize and founder of the Chicago School. Stigler writes: "Government is a possible source or danger for every branch of the economy in the society. With its power to ban or to encourage, to give or to take money, the government can help and really selectively assist or damage a large number of economic entities."<sup>2</sup> This idea of Stigler's confirms Mises' analysis of the consequences of the power of the bureaucracy.

The fact that the costs of putting Mises' ideas into practice are high need not put into the shade the importance of the book. *Bureaucracy* gives information about a possible other way in institutional reform in Croatia. The central theme of the book is powerful, easily intelligible and empirically borne out. The book does not only speak about how and why the bureaucracy does not just destroy economic liberties, lower the standard of living and create a spiritual wasteland but also causes economic destruction and losses. Mises also shows how and why the rules of the game in a society of free and responsible individuals reward action, encourage risk-taking, enhance personal rights and protect individuals against the redistribution of wealth.

It is fair to say that Croatia is at the crossroads of its future social and economic development. Its population needs to determine the road it wants the country to take. Mises' book should help them to understand the consequences of their choice.

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<sup>1</sup> Kolodko, G., 2002. "Post-Communist Transformation and Post-Washington Consensus: The Lessons for Policy Reforms". In: M. Blejler and M. Škreb, eds. *Transition: The First Decade*. Cambridge: MIT Press, p. 76).

<sup>2</sup> Stigler, G., 1971. "The Theory of Government Regulation". *Bell Journal of Economics*, 2 (1), 3.