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Divergence in Post-Socialism: The Role of Culture

In the early 1990s, after the abolishment of communism in Central and Eastern Europe, the dominant mood was that liberal market economy could be imposed in any country in a relatively short time.[1] Many believed that restoring the market meant restoring the natural state of affairs. International institutions like the International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), the World Bank and European Bank for Reconstruction and Development (EBRD) assumed that capitalism could be introduced by decree in Russia and other post-Soviet states. They stated in 1990 that:

> A recovery from the reduced level of output should be able to get underway in two years or so … further, strong growth of output and rising living standards could be expected for the remainder of the decade and beyond. (IMF *et al.*, 1990, pp. 18–19)

They expected a quick fix that did not require any structural changes. They expected that the market could function as a lever to impose economic rationality upon society and economy. They implicitly assumed the prevalence of *Homo Economicus* who makes rational choices. Soon it became obvious that the post-socialist countries were not only faced with a transformational recession, in which wasteful and value subtracting activities were eliminated, but also with a 'normal' recession, caused by systemic transformation and the collapse of the socialist division of labour. But much more was involved. There is the institutional legacy that comprises ingrained social practices. It was often informal constraints that constituted impediments to the emergence of a more efficient economic system.

The widespread assumption was that Central and Eastern European backwardness was a mere consequence of centrally planned economy and that liberal market economy and market democracy would respond to the deepest aspirations of all people. The task was to quickly remove the barriers for free trade and introduce private property in order to let a liberal capitalism flourish. To that end the institutions of global economic governance elaborated a standardized path of transformation. It was assumed that most Central and East European countries would have good development prospects given the high educational levels, well-developed infrastructure and industrial capacities. The idea was that institutions could be built from scratch so that the tangible potential could be converted in welfare gains. The assumption was also that the past has not left a legacy in the minds of the people concerned in terms of world outlooks, value systems and ingrained social practices.

Later, it appeared that rather than a transition to liberal market economy, a transition to a variety of socio-economic systems took place, often far removed from a liberal market economy but very much shaped by national traditions. Political regimes varied from the Sultanistic autocracies in Central Asia to liberal democracies in Central Europe, from the unreformed dictatorship of Belarus to the oligarchic authoritarianism of Russia. It also appeared that a rapid economic divergence occurred in terms of GDP per capita. In this chapter we analyse divergence in Central and Eastern Europe and focus on the relationship between culture, seen as the collective programming of the mind, politics and economy.

Economic, political and cultural divergence in Central and Eastern Europe

Between 1973 and 1990 a process of economic divergence occurred within Central and Eastern Europe that was accelerated during 1990–1998 (see Maddison, 2001).

Economic performance indicators show clear divides between the countries that became members of the EU in 2004 (two sub-groups, Poland, Slovakia, Czech Republic, Hungary and Slovenia on the one hand and the Baltic states on the other), Bulgaria and Romania (members EU 2007) and lastly, Ukraine, Belarus, Russia and Kazakhstan (Map 1.1, Table 1.1). Notable is that the countries in each group are adjoining and share common histories.

We should take into account the fact that, for example, Russia and Kazakhstan profited enormously from their wealth of natural resources.

Map 1.1 Central and Eastern Europe, country groupings

The same groupings appear if we look at some economic environment indicators such as the perception of corruption and state capture (Table 1.2).[2]

The above mentioned groupings are again pronounced when looking at the correlation between competitiveness, political rights and civil liberties (Table 1.3).

Graph 1.1 shows the performance of selected Central and Eastern European countries with respect to governance indicators (voice and accountability, political stability, government effectiveness, regulatory quality and the rule of law).

They show a clear divide in Central and Eastern Europe between those post-socialist countries that entered the EU in 2004 and the other post-socialist countries.

Table 1.1 Real GDP (2005/1990), GDP per capita (2006) and human development index (2007/8) in Eastern Europe and the CIS

	Real GDP, 2005 (1990 = 100)	GDP per capita, ppp 2006 ($)	Human development index 2007/8 ranking
Poland	168	15,364	37
Slovenia	142	25,769	27
Hungary	137	18,956	36
Slovakia		18,457	42
Czech Republic	124	23,024	32
Estonia	165	19,702	44
Latvia	120	16,198	45
Lithuania	116	16,747	43
Romania	120	11,017	60
Bulgaria	120	10,757	53
	Real GDP/NMP, 2005 (1989 = 100)	**GNP per capita, ppp 2006 ($)**	**Human development index 2007/8 ranking**
Belarus	132	8,889	64
Kazakhstan	123	8,837	73
Russia	93	11,957	67
Ukraine	69	7,782	76

Sources: Economic Commission for Europe and Human Development Project

Table 1.2 Central and Eastern Europe: corruption perception index (2007) and state capture index (1999)

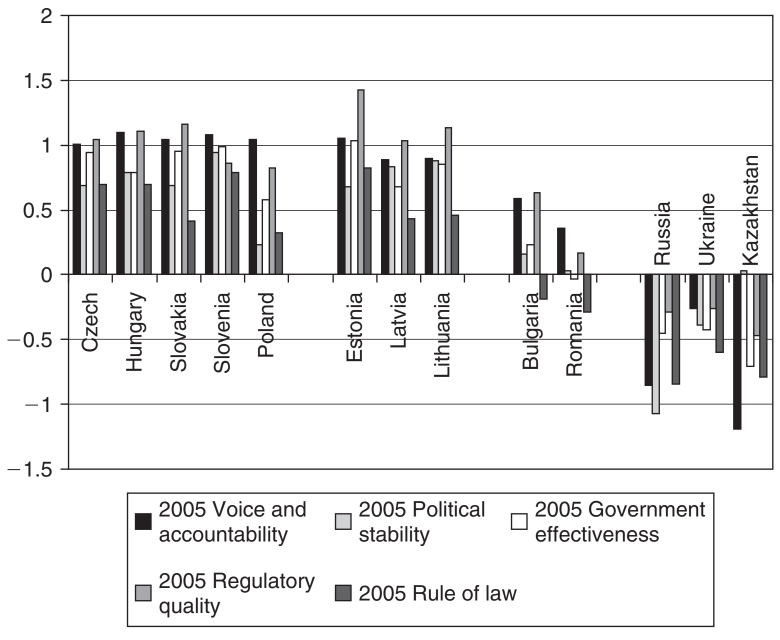
	Corruption perception index, 2007	State capture index, 1999
Poland	4.2	0.17
Slovenia	6.6	
Hungary	5.3	0.10
Slovakia	4.9	0.34
Czech Republic	5.2	0.16
Estonia	6.5	0.14
Latvia	4.8	0.22
Lithuania	4.8	0.17
Bulgaria	4.1	0.40
Romania	3.7	0.30
Belarus	2.1	0.12
Kazakhstan	2.1	0.18
Russia	2.3	0.45
Ukraine	2.7	0.45

Sources: Data from Transparency International, World Bank and Havrylyshyn, 2006, p. 192

Table 1.3 Central and Eastern Europe: global competitiveness ranking, political rights and civil liberties ranking

	Global competitiveness ranking 2007/8	**Political rights 2005**	**Civil liberties 2005**
Poland	51	1	1
Slovenia	39	1	1
Hungary	47	1	1
Slovakia	41	1	1
Czech Rep.	33	1	1
Estonia	27	1	1
Latvia	45	1	2
Lithuania	38	2	2
Bulgaria	79	1	2
Romania	74	3	2
Belarus		7	6
Kazakhstan	61	6	5
Russia	58	6	5
Ukraine	73	4	3

Sources: Freedom House and World Economic Forum



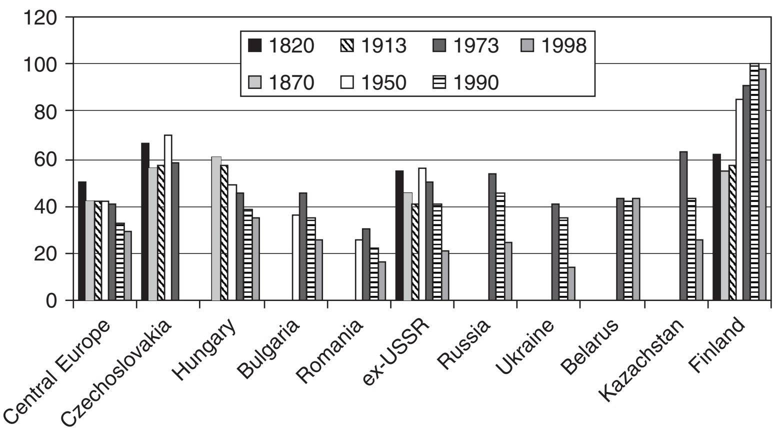
Graph 1.1 Central and Eastern Europe: governance indicators, 2005
Source: World Bank

Also, there is a correlation between the duration of communist rule and the above rankings as there is a correlation between the experience of capitalist development and parliamentary democracy before the introduction of socialism and the rankings. It all suggests that history, especially pre-socialist history, matters very much in present day developments.[3]

The above mentioned relationships between culture, politics and economic performance suggest that in explaining economic performance across Central and Eastern Europe we should go beyond the quality of economic policy. Policy makers operate in an environment in which they socialize and that imposes constraints upon their scope of manoeuvre. Economic development is path dependent and embedded in a culture that is resistant to change.

The age old problem of catching up with Western Europe

Central and Eastern Europe for ages has faced the persistent problem of catching up with Western Europe as Graph 1.2 shows. Even the socialist modernization attempt did not succeed in catching up. This may be surprising because living standards increased dramatically in the



Graph 1.2 Central and Eastern Europe: GDP per capita (in international dollars), as a % of West European* GDP per capita, 1820–1998

Note: * Western Europe is Austria, Belgium, Denmark, Finland, France, Germany, Italy, The Netherlands, Norway, Sweden, Switzerland, UK. Central Europe is the former bloc of European socialist countries minus the countries of the former Soviet Union, but including the countries of the former Yugoslavia. For 1998 the GDP of Slovakia and the Czech Republic are added and divided by their total population.

Source: Maddison, 2001, p. 197

three decades after World War II, especially in the less developed socialist countries. However, the West European economies also developed dynamically; Western Europe was a moving target.

Berend and Ranki (1982) pointed to the fact that Central and Eastern Europe was faced with several failed attempts to eradicate backwardness. While Western Europe faced the introduction of a decentralized kind of feudalism, Central and Eastern Europe saw, what Berend and Ranki characterize as a backward kind of feudalism (Berend and Ranki, 1982, p. 11). The classical Roman influences were from the start weaker (or totally missing) in what was to become the Central and East European periphery. Central and East European societies in the areas ruled by the Russian and Ottoman empires were static and immobile, centralized and consisting of self-sufficient agrarian communities.

During the eighteenth century, as a reaction to capitalist development in Western Europe, Central Europe re-feudalized. It meant an artificial resurrection of early feudal relations (Berend and Ranki, 1982, p. 18). During the second half of the nineteenth century most of Central and Eastern Europe adopted liberal economic policies and export led industrialization. But Central and Eastern Europe remained agricultural and traditional. Although three distinct patterns of reforms can be distinguished in Central and Eastern Europe during the nineteenth century, they were all executed from above and not the result of revolutions. In the Balkans, the abolishment of feudalism was part of the struggle against the Turks, which started in the early 1820s. Romania, which became independent in 1861, abolished feudal institutions in 1864. At the end of the eighteenth century the Hapsburg monarchy issued laws which limited serfdom and completely abolished it in 1848. Prussia abolished serfdom in 1809. During the last third of the nineteenth century, feudalism was abolished in all parts of Central and Eastern Europe.

After World War I, the Central and East European countries introduced strong state-interventionism, various kinds of planning and replaced export-led policies with import substitution through high import tariffs.

According to Berend (2000, p. 48) ‘The planned economy of state socialism, in this respect, was only a new, bitter, and extremist version of economic nationalism, or, perhaps more accurately, a modernization dictatorship’. In Russia, the Bolshevik experiment can be seen as the continuation of imposed modernization by the state. Three times, under Ivan IV, Peter I and Catherine the Great, the state-led modernization attempts were initially successful, but ultimately failed.

Berend (2000, p. 50) speaks about the ‘peripheral structural crisis’ which is destruction without creation. ‘Central and Eastern Europe experienced this situation three times from the 1870s to the 1970s–1990s and had only a "backward exit" ' (ibid. p. 50). This suggests that the structural backwardness of Central and Eastern Europe is not just a question of too much state and too little market. Developments since 1989/1991, when an inefficient state socialism was replaced, in most post-socialist countries, by an inefficient capitalism, bear testimony to that. Only in 2007 did Russia attain the per capita GDP level seen at the end of the Soviet period while the core countries of the world economy had moved on during those 17 years.

We can refer here to the work of Gerschenkron (1962) who argued that late-comers and contender states usually follow another development path than the leading nations. The greater the degree of backwardness, the more intervention is required in the market to push capital and entrepreneurial leadership to nascent industries. Also, he argued that relative backwardness creates a tension between the promise of economic development, as achieved elsewhere, and the continuity of stagnation. Such a tension takes political form and motivates institutional innovation, whose product becomes an appropriate substitution for the absent preconditions for growth (see Fishlow, 2003). Mainstream economists and institutions of global economic governance, however, assume that once the economy is liberalized and privatized, the market provides miracles in a similar way irrespective of any historic circumstances. Usually, the scholars who emphasize path dependency are caricaturized and subsequently ignored. A usual criticism of path dependence is that it is 'historical determinism, emasculating the role of any policy choice' (Havrylyshyn, 2006, p. 66). However, the thesis of path dependence does not deny the impact and relevance of policy making. It places policy making in a historical and social context. Transitologists who ignore the issue of path dependence and see the transformation of the post-socialist space as a pre-ordained march towards the market or Anglo-Saxon liberal market economy impose their teleology upon concrete historic processes. The only alternative option in this scenario is that a transition towards liberal market economy is frozen. It denies the option of transformation as an open-ended process.

Cultural-behavioural regions

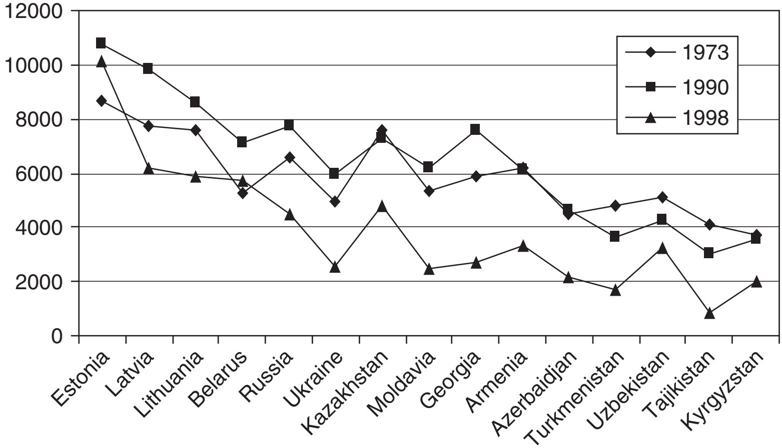
Many authors have drawn attention to the relationship between culture and economic development.[4] Weber pointed to the influence of Protestantism upon capitalist development, contrasting it with the ethic of Catholicism (Runciman, 1978, pp. 133–74). Landes (1999, p. 66) identifies culture as one of the main factors of economic development. Putnam (1993) traces differences in institutional performance of Italian regions back to prevalent governance patterns during medieval times. Research showed that local government performance in Poland was most strongly affected by their historical location. The Northern and Western parts of Poland which belonged to Germany until World War II performed best. Next was the region which was a part of the German empire before World War I. It was followed by the former Austrian region. The region which was a part of the Russian Empire showed the weakest performance (Katchanovski, 2000, p. 67; Gorzelak, 1998, pp. 124–6).

The case of East Germany, which in the early 1990s had the same institutions as West Germany and received an influx of West German capital and managers, shows how inert attitudes and regional cultures are. Eastern Germany still strongly lags behind Western Germany in terms of productivity and unemployment.

If looking at the interrelationship between culture and economic development in the area of the former Soviet Union, the case of ethnic Germans comes to the fore. They constituted a sizeable group since Tsarina Catherina invited Germans to settle in Russia. They proved to be far more productive than ethnic Russians and managed to preserve their culture and language.

The case of Central Asia is also revealing because there was a non-revolutionary transition from party-state to clan-state. In most cases the former communist leaders stayed in power and transformed into nationalists. The clan structures that thrived below the surface in communist times re-surfaced in 1991.

Also the case of the Baltic States and especially that of Estonia draws attention. After 1995–6 the Baltic countries turned the corner and started to grow dynamically, unlike most other countries of the former Soviet Union. Some would say that the fact that these states managed successfully to restructure their economies while becoming members of the EU in 2004 testifies to the importance of political will in transition and the irrelevance of historic legacies. However, these countries have known Soviet communism only since World War II and have experienced capitalist development and representative democracy during their short period of independence. This may have given them an invaluable experience. Historically, they are a produce of the Hanseatic League. Moreover, when under tsarist rule, these areas always had been atypical; being part of Western Christianity with an important role for the German speaking nobility in that area. Also, under communist rule the Baltic countries

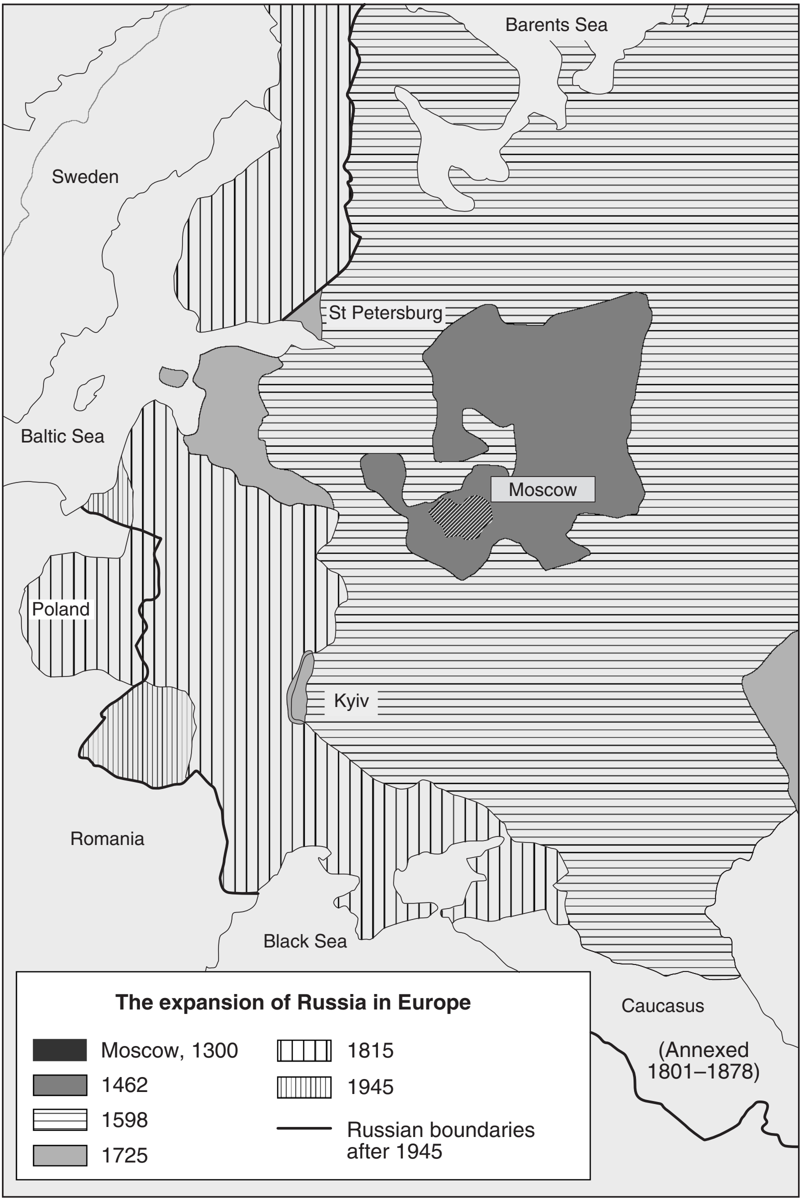


Graph 1.3 GDP per capita of (ex-) republics of the USSR, 1973, 1990 and 1998
Source: Maddison, 2001

had a much higher per capita GDP than other ex-Soviet republics (see Graph 1.3).

Some will say that Finland is a case of rapid extraction from underdevelopment. Since the early nineteenth century, until the October Revolution, Finland was part of Russia (see Map 1.2), and was, in European perspective, a less-developed area (see Graph 1.2). In less than 100 years, Finland has become the most innovative economy in the world with a welfare state that is the envy of the rest of Europe. Again, although part of the Tsarist Empire, this Lutheran country always occupied a special position. Finland has had a tradition of self-government extending back into the Middle Ages. For more than 600 years Finland belonged to the dual Kingdom of Sweden-Finland. Finland became part of the Russian Empire in 1809 but was never fully incorporated into the Empire and retained its own legal system. Finland never knew slavery.[5] Protestantism provided a more favourable atmosphere for free social development than Orthodoxy. Protestantism helped to create internal controls that allowed capitalism to flourish without sacrificing social order. In the nineteenth century, the Finnish diets included not only the standard three estates, but also following the model of the Swedish Riksdag – representatives of a fourth estate: the peasantry.

As part of the Russian Empire, Finland made primary schooling compulsory in 1866. By the beginning of the twentieth century illiteracy was



Map 1.2 The expansion of the Russian empire

completely eliminated while in Russia illiteracy reigned supreme (Berend and Ranki, 1982, p. 55). Thus, Finland was far ahead compared to the rest of the Empire and occupied a special position (Billington, 1970, p. 373).

The cases of Finland and the Baltic states support the thesis of a civilizational divide in Europe that is congruent with the divide between Western and Eastern Christianity. Huntington (1993) pointed to this divide in his seminal article in *Foreign Affairs*. Developments since then confirmed his thesis; the regions of Western Christianity followed another path than the regions of Eastern Christianity. Although Bulgaria and Romania, both Orthodox nations, joined the EU in 2007, they are both mired in economic mismanagement and corruption and are far from being success stories. All transition success stories are transition states that belong to Western Christianity. Is this a coincidence? Katchanovski (2000) showed that the percentage of Catholics and Protestants in the population (Western culture index) was the strongest direct determinant of growth in post-communist countries.

On the basis of the World Values Survey a map of personal values has been constructed. When individual responses within a country are averaged, mean country positions can be placed on a map defined by two axes, one contrasting traditional and secular-rational authority while the other contrasts survival and self-expression. The values-mapping shows clusters which correspond to conventional cultural-religious regions: Catholic; Protestant; Orthodox; East Asian, plus implicit Muslim; African animist; and South Asian Hindu areas. According to Sandholtz and Taagepera (2005, p. 112):

> comparatively homogeneous cultural-behavioral regions are formed that can survive even the abolition of the traditional religion, as attempted by communists across Christian, Muslim and East Asian lands.[6]

According to Sandholtz and Taagepera (2005) cultural factors, as measured by the two dimensions of values identified by the American sociologist Inglehart, explain 75 per cent of the variation in the corruption perception index. A strong survival orientation contributes twice as much as a strong 'traditional' orientation to higher levels of corruption.

> When controlling for these cultural variables, communism and post-communism increase the levels of corruption even further, both directly and by contributing to heavier emphasis on survival values (Sandholtz and Taagepera 2005, p. 109).

> The ex-communist countries, as a group have markedly higher levels of perceived corruption than do non-communist countries in the same geographic and cultural regions. (Ibid., p. 109)

This is related to both cultural inertia and structural opportunity (see also Chapter 5). Other surveys confirm above mentioned regional groupings. Whereas in Central Europe strong majorities (usually over 60 per cent) have approved the way the multiparty system works, the overall percentage in the post-Soviet area (excluding Baltic States) has never been much more than a third (Meyer, 2006, p. 81). More than two-thirds of these post-Soviet publics look back favourably on the old communist regimes (ibid.).[7]

The case of Ukraine is interesting in this respect. The civilizational divide of Western and Eastern Christianity passes through Ukraine and reflects the traditional orientation towards Western Europe of some Central and Western Ukrainian provinces. These sparsely populated provinces were incorporated in the Russian empire rather late. Kyiv was incorporated in 1725 while Galicia only in 1945 (see Chapter 6).

Belarus is an example of a country in which there was no sharp break with the communist legacy. Belarus' President Lukashenko led the country in an authoritarian way and no opposition was tolerated.[8] Nevertheless, there is evidence to support the claim that he has strong popular support.[9] This is related, among others to the fact that living standards are much higher than in neighbouring Russia and Ukraine, inequality less pronounced and services on a higher level.[10] As Table 1.1 shows, Belarus is doing rather well in GDP growth despite the fact that Belarus has hardly any natural resources and has a less well-developed industrial base compared to Ukraine and Russia. Belarus has had the second smallest decline in GDP in the area of the former SU, after Uzbekistan that is a major oil exporter.[11] According to the 2006 Human Development Report, Belarus is ahead of most other CIS counties (rank 67, Russia 65, Ukraine 77, Kazakhstan 79) (Ioffe, 2004, p. 99). According to a World Bank study in 2002, compared to other countries of the former Soviet Union, Belarus has by far the lowest percentage of people living in absolute poverty and also much lower than Poland, Bulgaria and Romania (World Bank, 2005b, p. 5). But Belarus still has a largely state-dominated economy while economic life is highly regulated.[12] In Belarus oligarchs do not exist, neither does capital flight, unlike in Ukraine and Russia. Importantly, corruption is relatively minor compared to the other states of the Community of Independent States (Belarus was listed in position 74 on the World Corruption Perception Index 2005, together with Gabon and Jamaica, while Russia was positioned 90 and Ukraine far lower down the list at 122).

The circumstantial evidence shown above suggests a strong link between economic performance and historical legacies that are reflected in culture. Cultural-behavioural regions coincide with country groupings of similar economic performance. Also, the persistence of the economic gap between Central and Eastern Europe with regard to the leading countries in Western Europe and reproduction of pre-socialist patterns of regional inequality suggests that we should look beyond the state-market paradigm when explaining economic performance.[13]

Often, economic systems are conceived as the system of institutions coordinating economic relations that can be studied away from history and independent of its social and economic context. But, as Peter Murrell (1993, p. 220) maintains,

> Socio-economic mechanisms are information-processing devices … a society's stock of personal knowledge [that] is acquired through a long historical process shaped by the institutions and organizations of that particular society.

In Chapters 2 and 3 the history of Russian society and economy will be presented from a sociological perspective. It is above all about the way rulers and ruled interacted. It will be shown that although major changes occurred in social habitus, synchronous with major social change, elements of continuity are prominent.[14]

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