

The Relationship between Economics and Culture in the Former Socialist Countries of Central and Eastern Europe

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Around 13 years ago, the countries of the former socialist block began their transition process from planned to market economies. Even under communist rule these countries differed in their wealth and also developed different socialist economies. However, with the fall of the Berlin wall, they radically oriented towards patterns of pre-socialist times, towards societies culturally near to their own or those harbouring a great number of former emigrants.

Not surprisingly, the countries nearest to Western Europe, such as Poland, the Czech Republic and Hungary belong to the so called 'Reform Winners', along with all those former socialist countries with a roman catholic or protestant heritage (Estonia, Slovenia). Some of them are in the second division, i. e. Latvia, Lithuania and Croatia. Some are real late-comers like Bulgaria and Romania (both orthodox).

All these countries are heading for European Union participation and they are developing their legal systems in conformity with that of the EU (including laws relating to companies, bankruptcy, accounting methods, the register of firms, the general commercial law code, free capital transfer, etc.). It is the so called "Acquis communautaire", comprising 80.000 pages and 31 chapters.

In contrast to the first mentioned, nearly all CIS¹ countries are still struggling for political and social acceptance of market reforms. These are Russia, Ukraine, Belarus (all orthodox), the Caucasian States (Islamic, except Armenia) and the Central Asian States (Islamic). So do the Balkan states Serbia & Monte Negro (orthodox), Albania and Bosnia (both Islamic). It deeply depends on the position and attitude of their political leaders, whether the situation is promising, as it currently is in Russia, retrograde as in Belarus, or diffused as in the Ukraine. In the Islamic countries of Central Asia the population is most impoverished, the political situation is more or less stable, again depending on the politics of their national rulers.

We will outline in a short overview, which transitional methods the most successful countries chose, and the importance of the different privatisation programmes undertaken by each government.

Poland: shock therapy in 1992, stable growth until 2000 with the help of foreign direct investment, a slash back from 2001 onwards, due to political dispute

Hungary: austerity program in 1994, radical privatisation by public auction, openness to new management methods, market for research and development.

¹ CIS: Community of Independent States

The Czech Republic: after ineffective mass privatisation, an absence of a modern banking law, crisis in 1989/99, recovery in 2002, at the moment very attractive because of the skilled labourforce.

In these three countries, a new economic class has developed, which has already expanded into western markets.

Russia, on the other side, saw a constant reduction in its industrial output from 1990 to 1998. Today its economic importance is comparable to emerging economies like Brazil, Korea and Mexico. Although, between 1991 and 1993, millions of small companies were founded, no middle class developed in the 90s. Russia received relatively small foreign direct investment (except for raw material business), as the overall economic situation has been difficult and the legal situation unclear. Under President Putin, political freedom vanished, but he submitted the country to a radical analysis of its real economic situation. He was the first president to bring a completely renewed tax statute and a land acquisition law through the Russian parliament (in 2001!). Therefore the situation is more promising than ever before. But it is still slow, if compared to massive legal reforms that had already passed parliaments in countries like Hungary and Poland partly even before 1989.

When looking at the more successful countries, we found the following criteria that counted for success (this list certainly not complete):

- Introduction of market-oriented regulations already under socialist rule
- Experience of the self-structuring of political processes, versus foreign rule
- Economic infrastructure favoring small and medium sized enterprises versus gigantic industrial complexes
- Combination of macro- and micro-economic measures and quick realization of institutional and legal regulations
- Emigrants acting as consultants in the transitional process
- Independent participation in the European cultural and legal process
- Political consensus about the necessity of a market oriented economy
- Few cultural, ethnic and mental reservations against foreign management
- Educated middle classes, the beginning of a civil society - legal culture, responsibility and participatory decision making - before socialist rule

These criteria brought us to the question why capitalism was successful in the West.

David Landes lists a number of conditions in his "Wealth and Poverty of Nations". He cites external conditions such as: urban societies since 12th century, monasteries as places for ancient knowledge new technologies, the tradition of antique philosophy, the knowledge of Islamic scientists, the respect of the crafts, the subordination of nature under the rule of man, the linear conception of time. He goes on listing some crucial inventions such as the water wheel, eye-glasses, the mechanical clock - conditions for mechanization and later industrialization.

As it is widely known, Europe took the economic lead in the world because of its spiritual concepts and its force of innovation, but even more seems to count Europe's fragmented structure into

hundreds of small territories with different rulers, that offered a ground for competition and innovation.

Landes analyses the role of China, which had a similar spiritual development and an even greater number of inventions, although there was an absence of a free market and institutionalized property rights. But he comes to the conclusion that the overwhelming hierarchical structure of the Chinese Empire hindered economic power in the long run.

Inspired by Landes' conclusions, we looked at the basic culture of orthodox countries, lying in Eastern Rome, or Constantinople. After the fall of the Roman Empire in the 5th century, this metropole was the leading power in medieval Europe, until it was conquered by the Osman Empire in 1453.

The difference between Western and Eastern Rome was not really a theological dispute. Eastern Rome refused to acknowledge the supremacy of the Pope in Western Rome. In Eastern Rome, the church acknowledged different patriarchs. Orthodox church draw back to the emotional and spiritual world and totally subjected to the secular power, in contrast to the Western Church that played a leading and independent role in politics, society and knowledge management. The oriental society from 5th to 14th century preserved the antique knowledge, but did not develop it further.

The historian Michael Weithmann describes in his "Balkan Chronik" that the Byzantium Empire was a totally hierarchical, autocratic system, a taut central state with a swelled bureaucracy, an inflation of prescriptions for the taxation of its subjects. Everything depended on the leading power. If the ruler was strong, laws were respected, if he was weak, the political counterforces (the archons) did their own policy and could endanger complete developments. This despotic tradition was transferred to the orthodox Balkan states who adopted its political and social concept (and especially Russia that saw itself as the 3rd Rome after the fall of Constantinople).

In Western Europe the Catholic Church guaranteed the transmission of Roman law into Europe. Due to relatively weak rulers in the Western European Middle Ages and the strengthening of the Pope as the primary ruler in religion, the state and the church developed into two different powers, neither of which could be seen as absolute. Thus the idea of the division of power was created. Each of the powers represented a legal function (the emperor for power, the church for justice), if we follow Herbert Küpper, a legal expert for Eastern law. The historical experience of the West is that legal limits were set for even the highest powers.

With rising individualism and secularisation of society, the legal system is becoming even more important. In Catholic Europe, a legal code, developed at the university of Bologna, started to englobe the other existing law codes. The idea of the individual was integrated into these codes. Central Europe, with its universities of Krakow in Poland (founded 1365), Pécs in Hungary (1367) and Prague in Bohemia (1348) was still part of this process. However, it was removed from it, when foreign rule was established in these three countries. They were involved in a sort of second feudal

rule - just at the time when Western Europe started its big shot into Reformation and the conquest of the new world.

The other European states of the former Eastern Block were also under foreign rule: Estonia, Latvia and Lithuania under German elites, later parallelly under Swedish and Russian rule. Slovenia, Slovakia and Croatia were under Austrian rule. They all suffered from foreign rule, but were christianized and, as participants of the European cultural process, could even take profit of the social progress some centuries later.

Not so the orthodox subjects of the Turkish Sultan in the Balkans who served as peasants and had to pay high taxes, as all non-Islamic subjects. Turkish rule lasted up to 450 years for some countries (Serbia, Bulgaria, Macedonia, Romania, Albania). These regions were nearly isolated from the European development.

Looking at Eastern Europe. Between the 13th and the 15th centuries Russia was conquered by the Mongols. The conquered Slavic peoples' perception was that power was obtained through complete violence, arbitrariness and the total extinction of all kinds of resistance. They speak of the Mongol Yoke. "But", Jegor Gajdar, one of the leading reformers in Russia suggests, "Russia had to pay less for the Yoke itself than for its removal."

Extreme efforts under radical rulers have appeared in Russian history up to the present day : Ivan the Terrible, Peter the Great, Katharina, Alexander, certainly Lenin and Stalin – and perhaps Putin.

It always seems to follow the same pattern: the ruler perceives a 'backwardness' in Russian society and by massive intervention in society and the economy he/she tries to correct this. This leads to a "mobilization economy" which acts only on the impulse of the ruling power, and not according to driving forces of economic pointers.

Considering the historical development in Central and Eastern Europe, we can explain, why certain positive and negative developments have taken place. There is a clear relationship between a positive economic development for countries within or near to Europe, whereas there are most negative economic results for countries being dominated by a hierarchical power or forming a strict hierarchy themselves.

But can we foresee that it will be this way all the time?

Hernando de Soto says, for the modern "homo oeconomicus" anywhere in the Third World or in the former communist countries, culture is not relevant for his economical success, if one considers that totally different cultures, as the Japanese or the Swiss are both economically successful, whereas in China and in Estonia people struggle with the same difficulties.

True it seems. You see active people doing business everywhere in the Eastern "New Europe". And it is certainly not intelligence that lacks those who do not succeed. They might not have learned or accepted yet "business spirit". Making money was a negative value up to a certain time. But even more probable is the missing "business environment".

To de Soto's judgement, the most important basis for a functional economy is the creation of capital by an appropriate property law and the registration of real estate into a commonly acknowledged land register.

We would like to expand this view to more general conditions: if a society wants to be economically successful, it needs a certain number of people being prepared to take risks, having creativity, a specific work ethos, a personal autonomy and also the force to overcome hindrances and authorities. But these capacities can only act if there is an environment generally open to business, and if it gives them a legal basis for their enterprises, which encompasses, next to the land register, an economic and mercantile law, a banking law and regulating information such as: company founding procedures, retention of the owner's title, and much more.

We say that in order to establish such a legal basis, there must be a consensus in the society about its necessity and that impersonal descriptions are more binding than personal relationships. With the establishment of a legal code the society will resort to its culture, as a legislation always is an expression of the rules of society, its hierarchical structures and its historical experiences.

However, as the Central European countries show, why should a society not adapt parts of international experience to improve its own legislation. Never in history has there been such a vast amount of communication between participants of different cultures and the possibility to compare different ways of organising an economy.

But will this communication lead to reasonable adaptations, such as the establishment of a functional land register, or will societies reject this as a foreign domination and try to stay in their social behavior pattern?

These two aspects should encourage the discussion.

A third aspect would be to find out, if the still existing and half maintained land registries in Central Europe (not in Russia) have participated in the "Reform Winners' " success and to observe if they will play a decisive role as securities for credits for new businesses to come. But this is a lecture I could perhaps hold on the following workshop.

