

EXPERIMENT AFTER EXPERIMENT

RETURN OF CAPITALISM

INTO THE POST-SOVIET COUNTRIES

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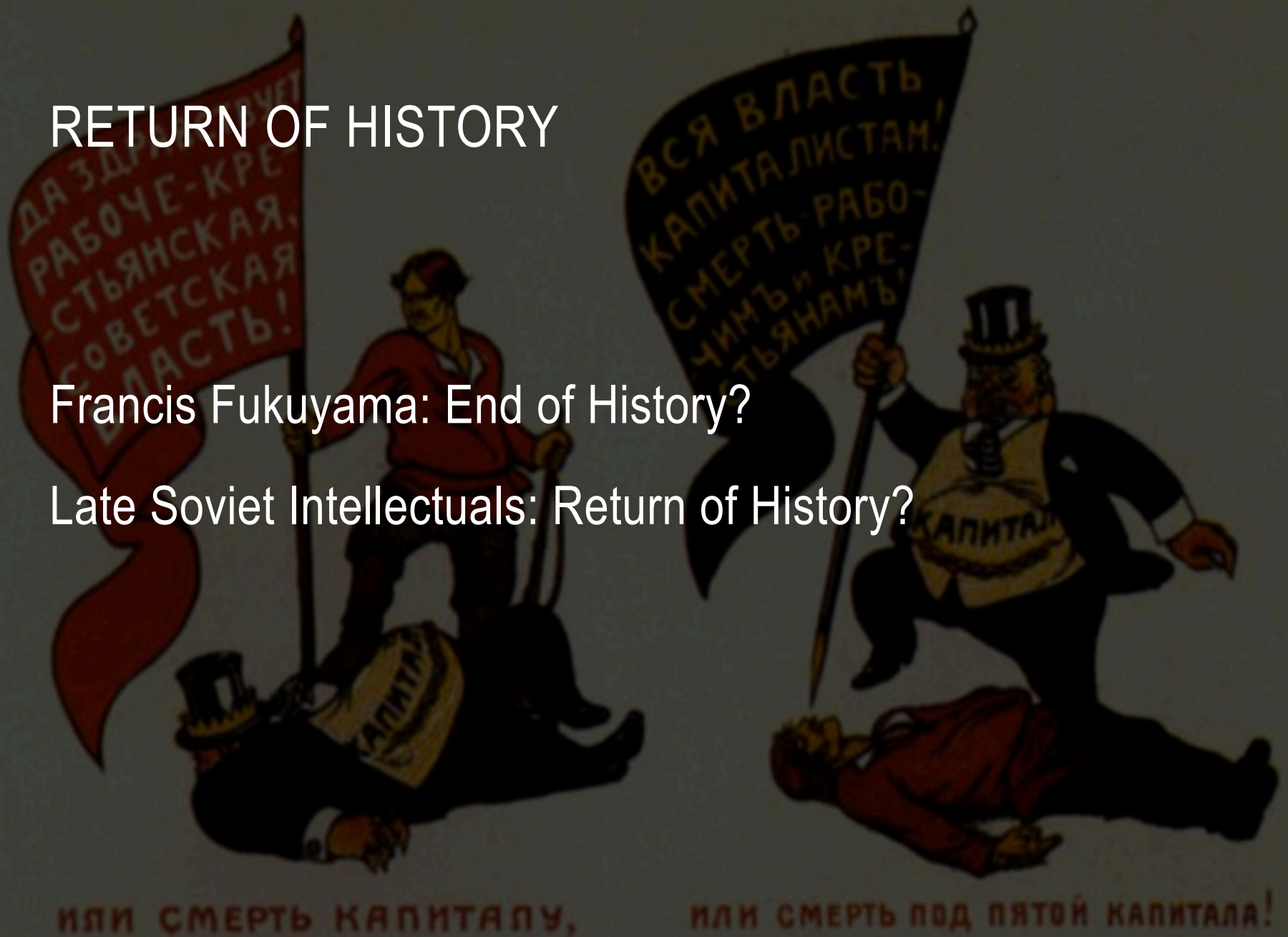
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February 5, 2013

RETURN OF HISTORY

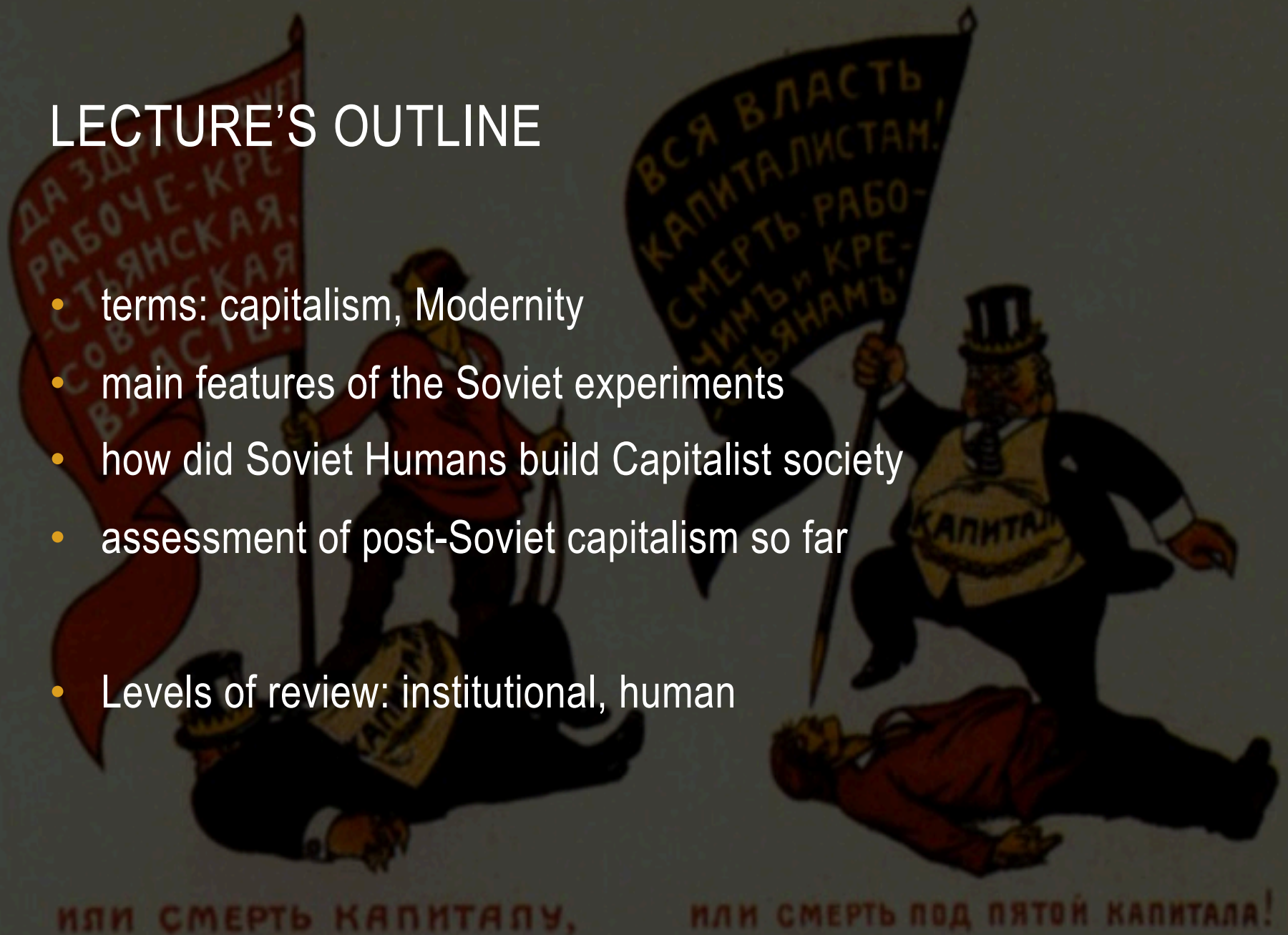
Francis Fukuyama: End of History?

Late Soviet Intellectuals: Return of History?



LECTURE'S OUTLINE

- terms: capitalism, Modernity
- main features of the Soviet experiments
- how did Soviet Humans build Capitalist society
- assessment of post-Soviet capitalism so far
- Levels of review: institutional, human



TERMS: CAPITALISM

Capitalism is an economic system that is based on private ownership of capital goods and the means of production, and the creation of goods and services for profit

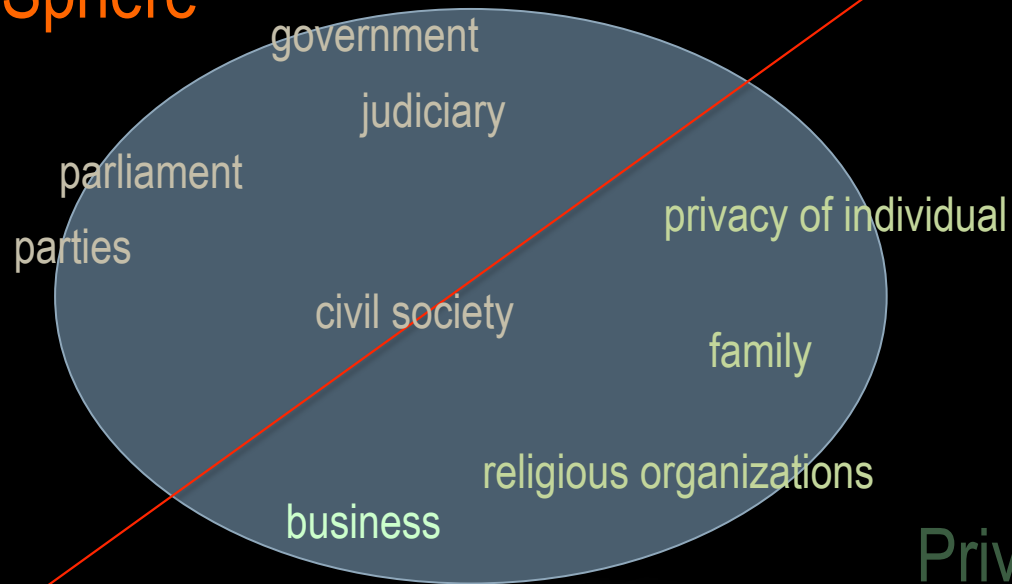
- institutional set up:
 - private property and free market
 - political regime supporting the two above
- humans having capacity to make these institutes working
- Modernity: constitutional order of public and private dichotomy

TERMS: CAPITALISM AND MODERNITY



TERMS: MODERNITY

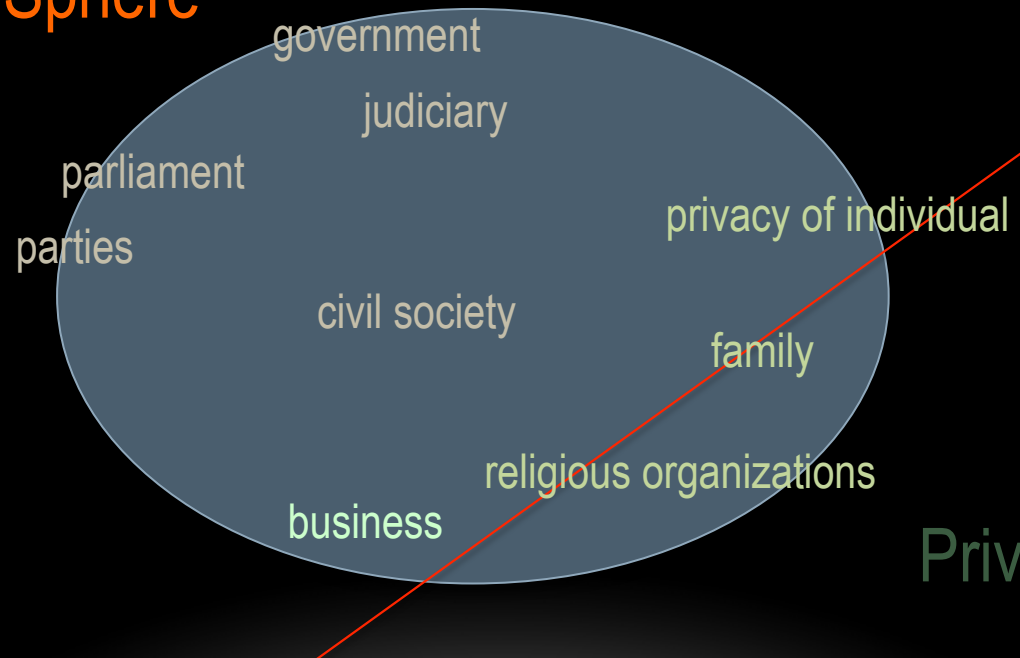
Public Sphere



Private Sphere

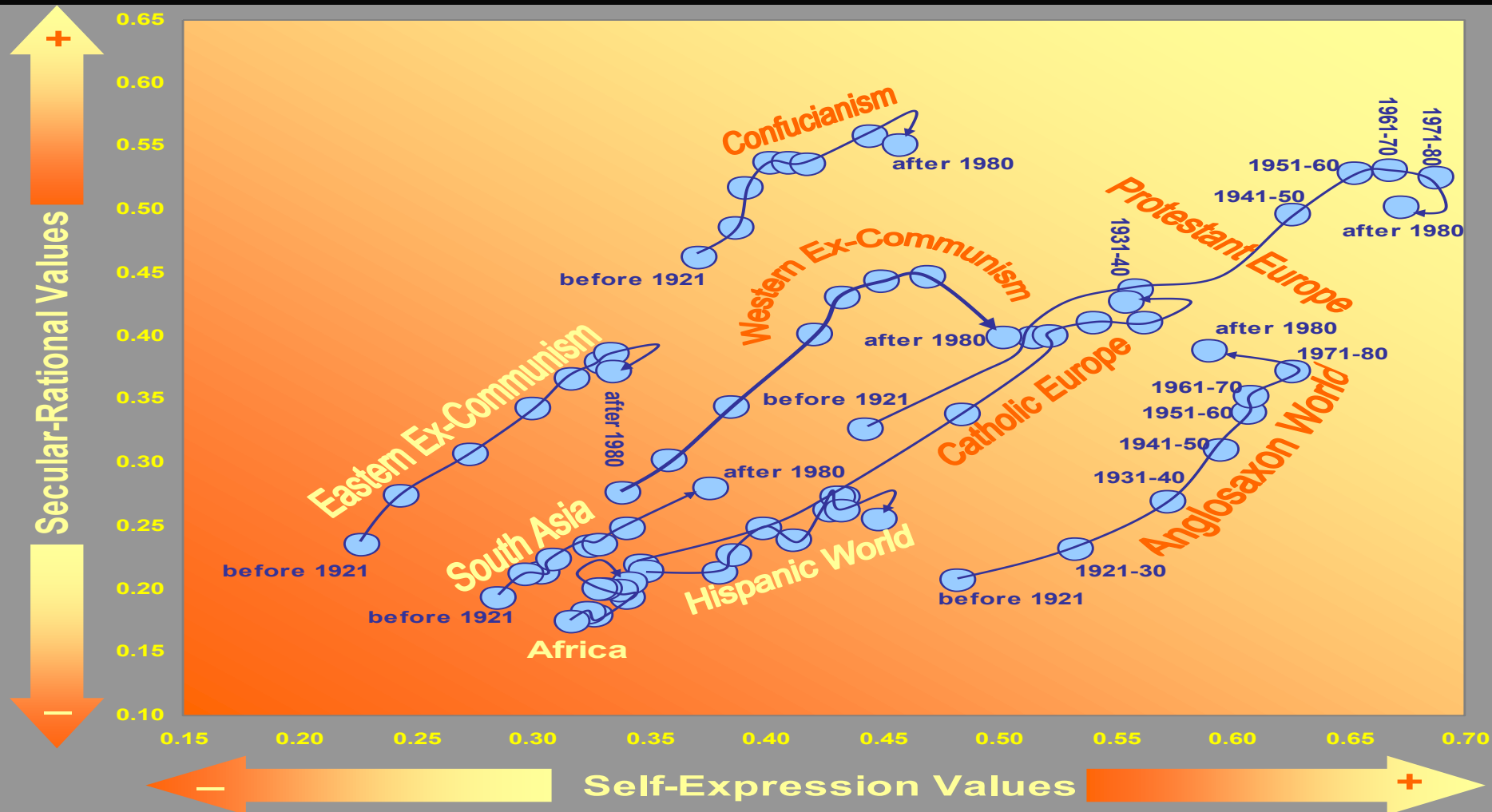
TERMS: DEVIANT MODERNITY

Public Sphere



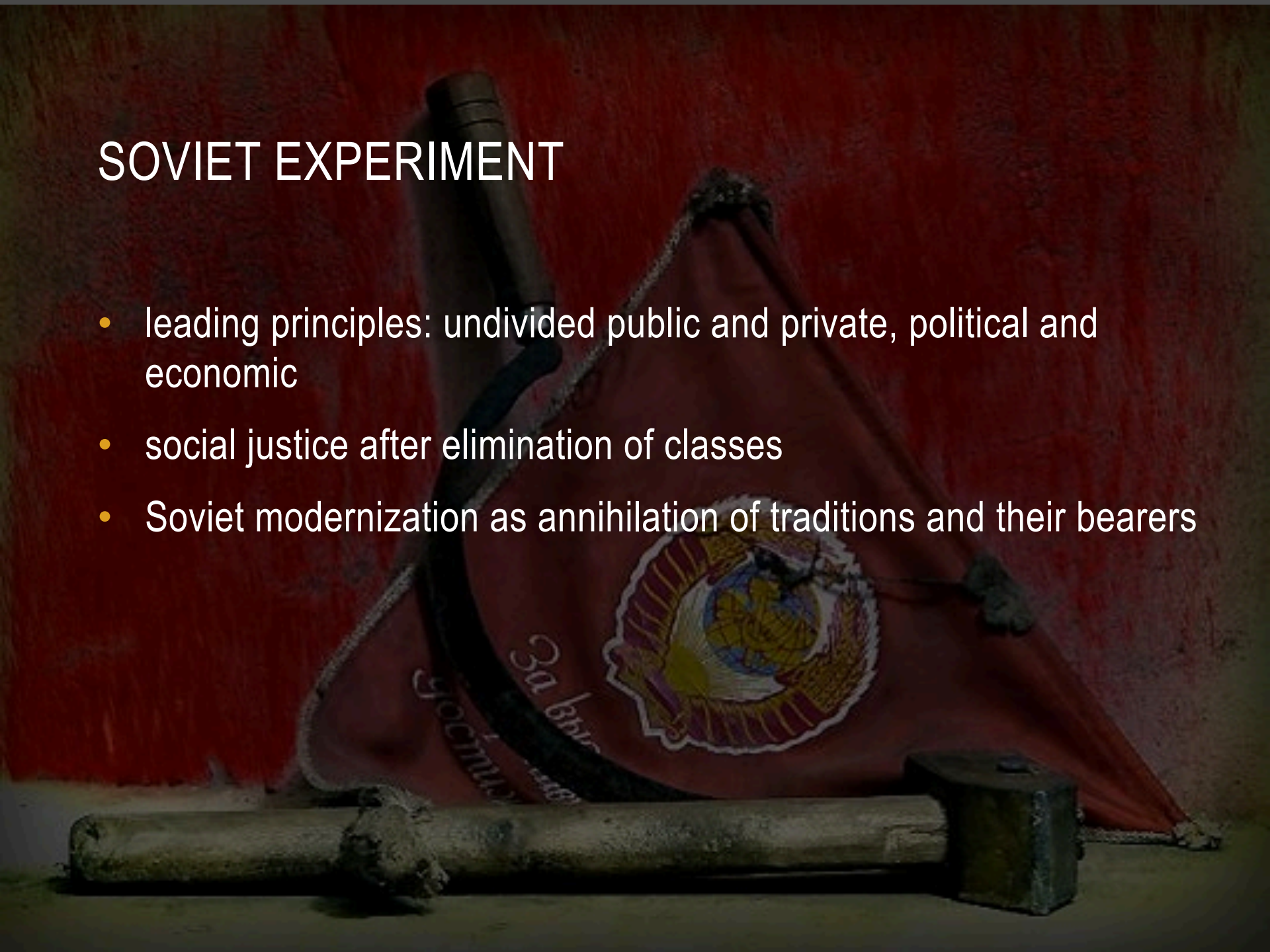
Private Sphere

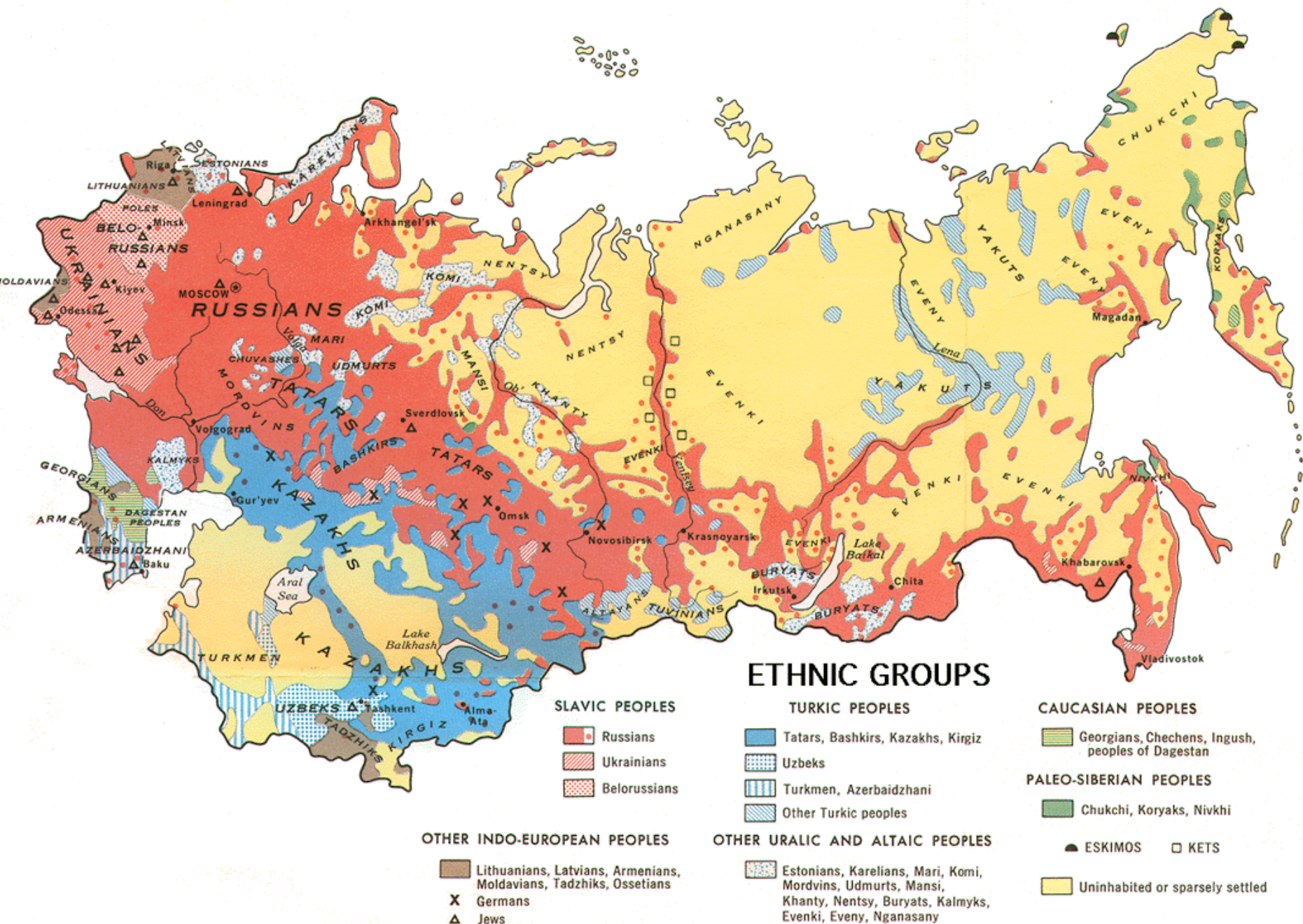
TERMS: MODERNITY



SOVIET EXPERIMENT

- leading principles: undivided public and private, political and economic
- social justice after elimination of classes
- Soviet modernization as annihilation of traditions and their bearers





**SOVIET DEMOCIDE COMPONENTS
AND WAR/REBELLION KILLED 1917-1987**

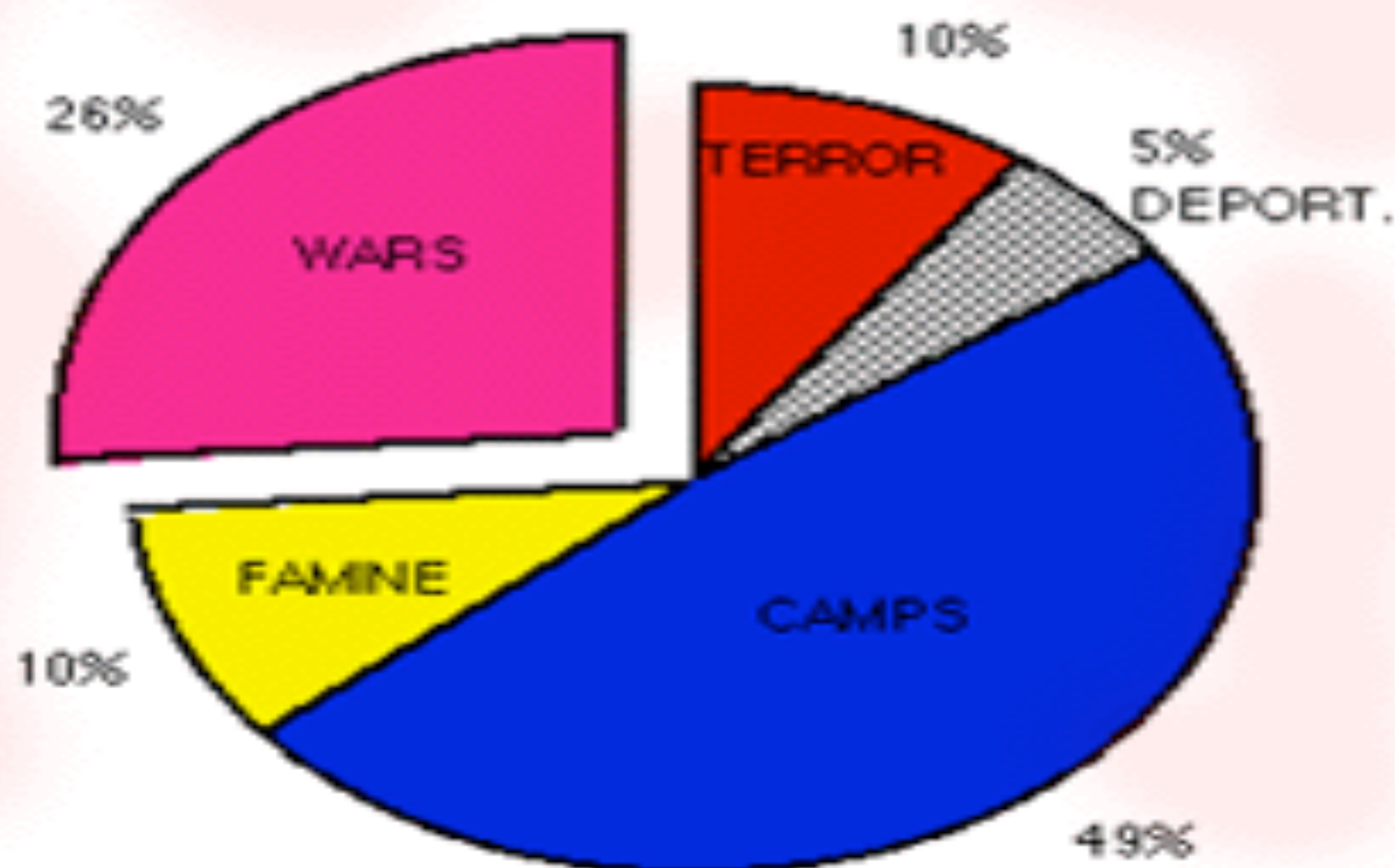
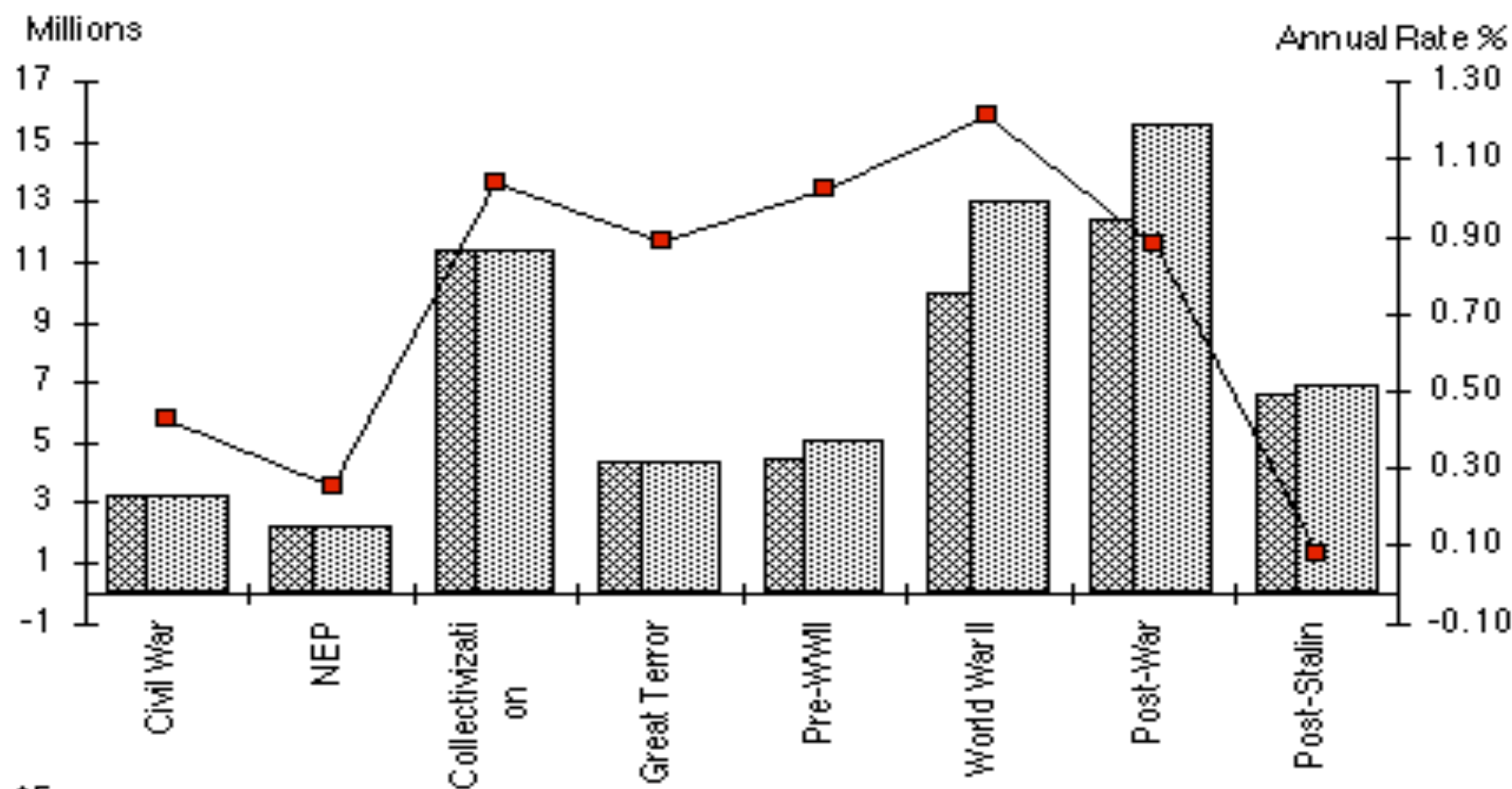


FIGURE 1.4
Soviet Democide and
Annual Rate by Period*



*From
 Table 1.1



CITIZENS



TOTAL



RATE %

SOVIET EXPERIMENT

A red Soviet flag with the hammer and sickle emblem is draped over a wooden beam. A scythe and a rifle are crossed over the flag. The background is a textured red wall.

- institutions:
 - totalitarian institutional set-up (since 1930ies)
 - public property with some sector of personal property: no privacy
 - dominance of un-codified rules
 - nomenclatura and one party-system
- humans:
 - class identity vs ethnic identity (final solution of nationality question)
 - educated obedience, ideology and cynicism
 - doublethink: personal morality vs public indifference

SOVIET EXPERIMENT: ECONOMY

- economy of non-owners: nationalization of means of production
- command economy: centralized bureaucratic allocation replaced market allocation
- prescribed prices and deficient goods distribution
- strange money: hierarchy of currencies
- work as duty and resource terror
- investment in human capital
- autarchy of economic systems



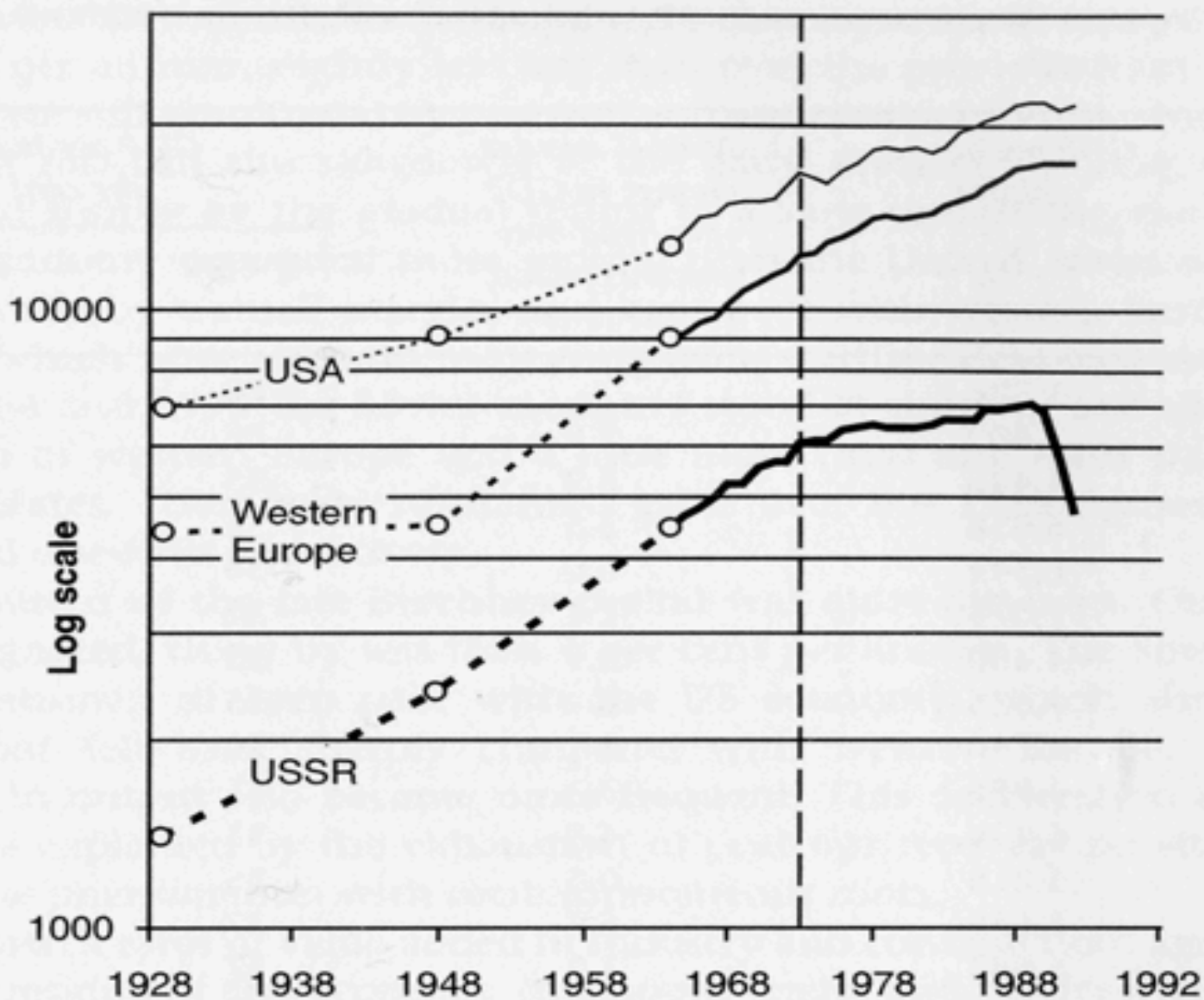
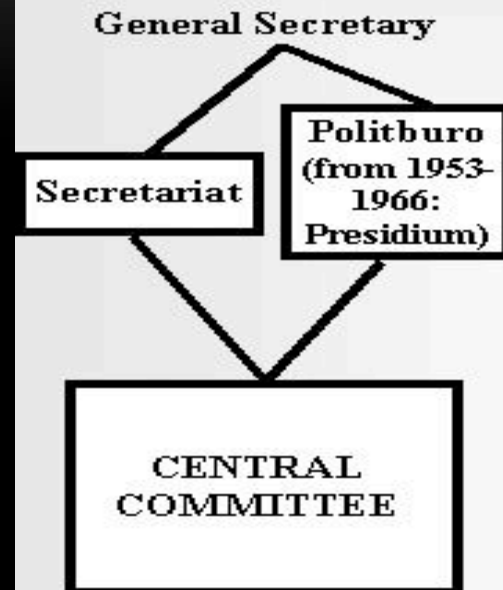


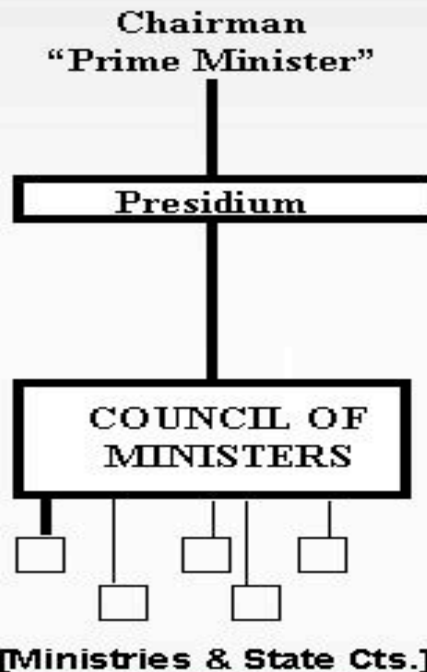
Figure 3.2 GDP per head of the United States, western Europe, and the USSR: 1928, 1948 and 1964–92 (US dollars and 1990 prices, on a logarithmic scale)

Source: as Table 3.3. On GDP see the note to Table 3.1. The vertical dotted line shows 1973.

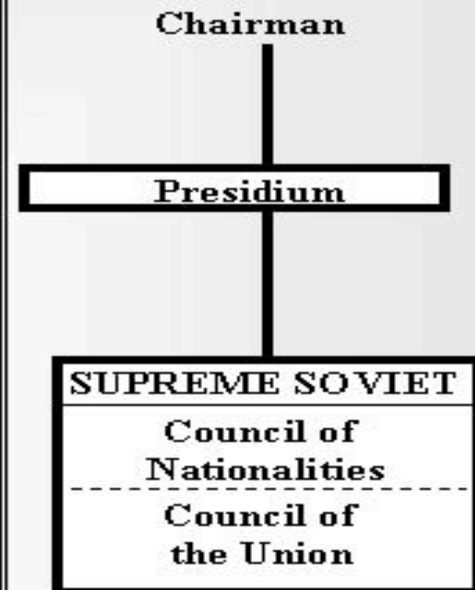
Communist Party



Executive "Branch" (The Government)



Legislative "Branch"



TIES AMONG THESE BODIES

- 1) The Party Politburo included the chairmen of the Presidiums of the Council of Ministers and the Supreme Soviet, as well as high government officials, such as the head of the planning agency or the KGB or the Defense Minister.
- 2) Secretaries of the CPSU Central Committee could not serve in the Council of Ministers, but they, like most top officials, got elected into the Supreme Soviet.
- 3) Some secretaries, but not all, were members of the Politburo.
- 4) Most ministers and chairmen of state committees were in the CPSU Central Committee, which was designed to include top leaders from all fields.

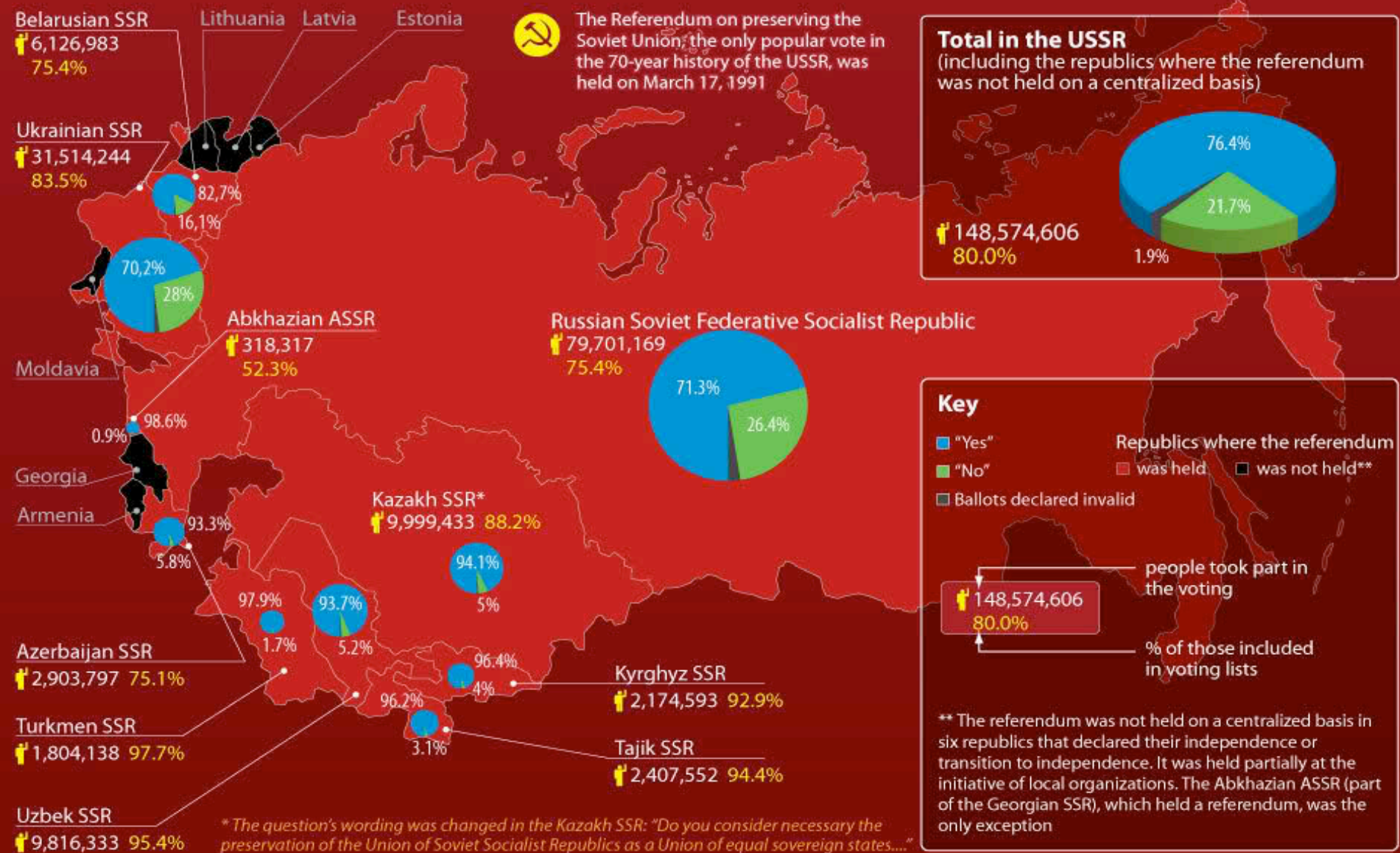
RESULTS OF SOVIET EXPERIMENT SOVIET HUMAN

- educated hatred to values grounding capitalism
- doublethink and dysfunction of official ideology



Referendum on the preservation of the USSR

The voters were asked the following question: "Do you consider necessary the preservation of the Union of Soviet Socialist Republics as a renewed federation of equal sovereign republics in which the rights and freedom of an individual of any nationality will be fully guaranteed?"



RESULT:
PASSIVE CITIZENS DID NOT
STAND UP TO DEFEND THE UNION IN 1991

THE POST-SOVIET EXPERIMENTS 'LIBERAL' REVOLUTIONARIES

- return to Europe
- build 'normal society'
- transform state and economy into 'Western' ones

EXPERIMENT AFTER EXPERIMENT'S DIMENSIONS:

- quest for new grounds of legitimacy: reference to first half of XX century realities in spite of huge cultural changes of XX century
- quest for plenty and stability: privatization in societies where entrepreneurship was a criminal activity
- quest for optimal government: democratization without institutional support

NEW EXPERIMENTS AND PARTING WAYS

- Russia: moderate democratic and radical economic reforms
- the Baltic countries: radical democratic and economic reforms
- Belarus: Soviet regime reestablished
- Ukraine and Moldova: national-communist rule
- Caucasus: ethnic wars followed by façade-democratic regimes
- Central Asia: national communists lead re-feudalization/
tribalization

INSTITUTIONAL CHANGE

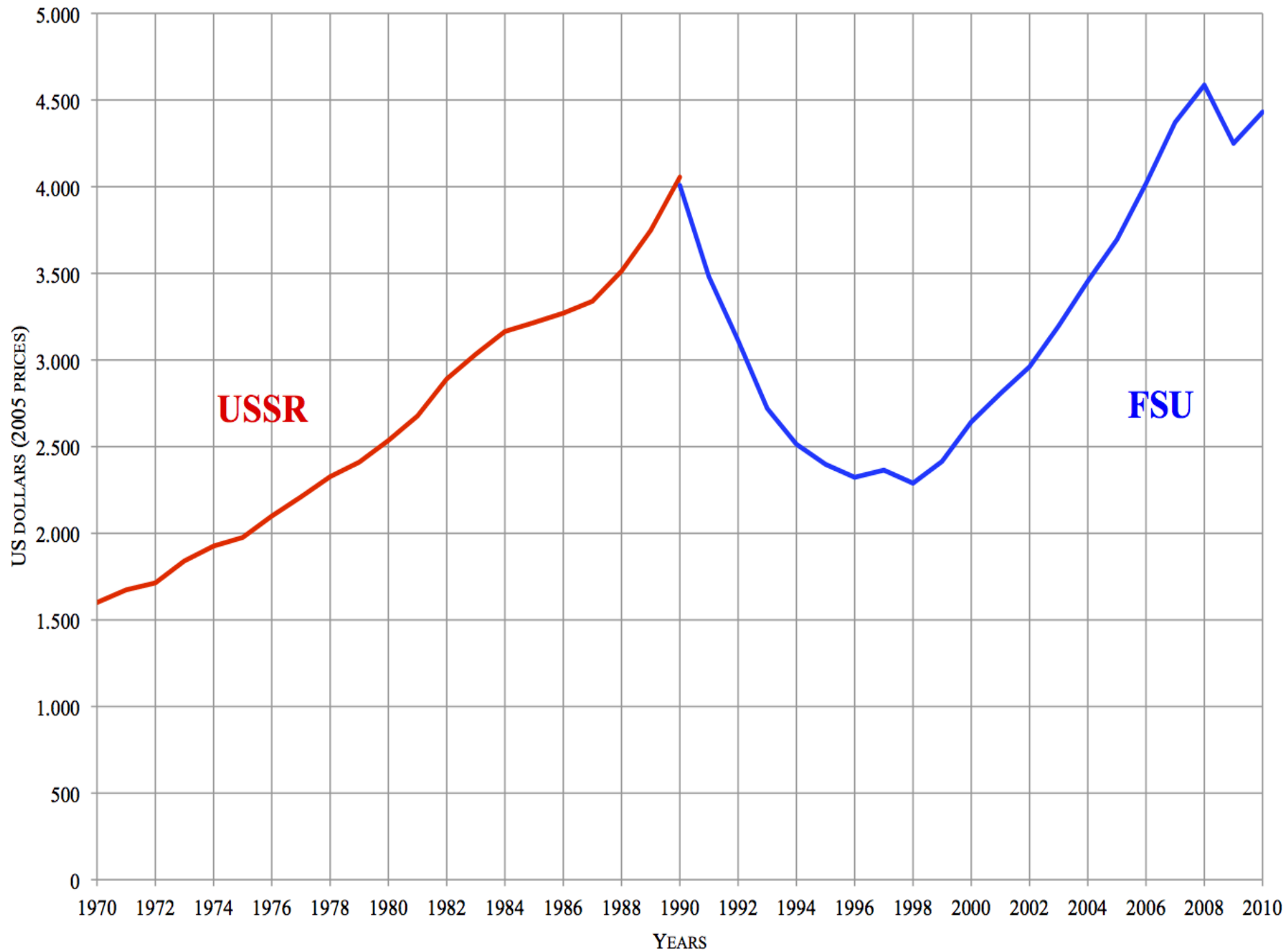
- creation of private owners
- opening economies
- national statehood
- political pluralism and competition

POST-SOVIET HYBRID INSTITUTIONS

- creation of private owners : oligarchy
 - open economies : export oriented economies
 - national statehood : state-led invention of identities
 - political competition : parties as business or fan-organizations
-

ECONOMIC 'NORMALIZATION'

- Governmental strategies:
 - deregulated prices, prohibited subsidies and eliminated monopolies
 - hyperinflation to be put under control of MinFin and independent CentroBank
 - looking for owners of the public enterprises: large-scale privatization
 - Rent seekers' strategies:
 - making money on transitional market distortions
 - control over government
 - Population's strategy:
 - survival in chaos, private entrepreneurs without skills
 - new clientele networks
-



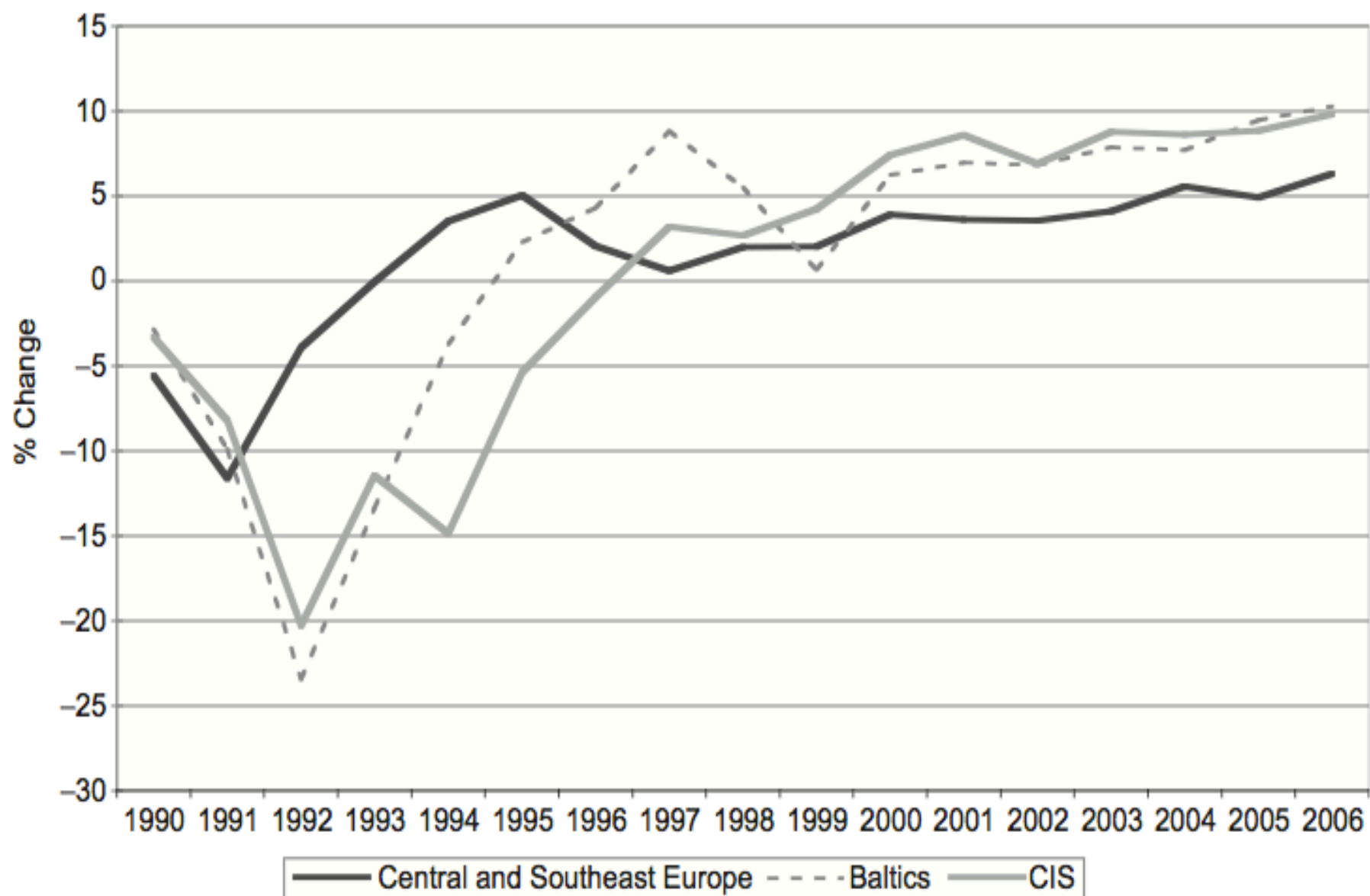


Figure 3.1. Official GDP Growth, 1990–2006. Sources: World Bank (2006) and IMF (2007).



ECONOMIC 'NORMALIZATION'

ECONOMIC CRISIS IN 1992-1997

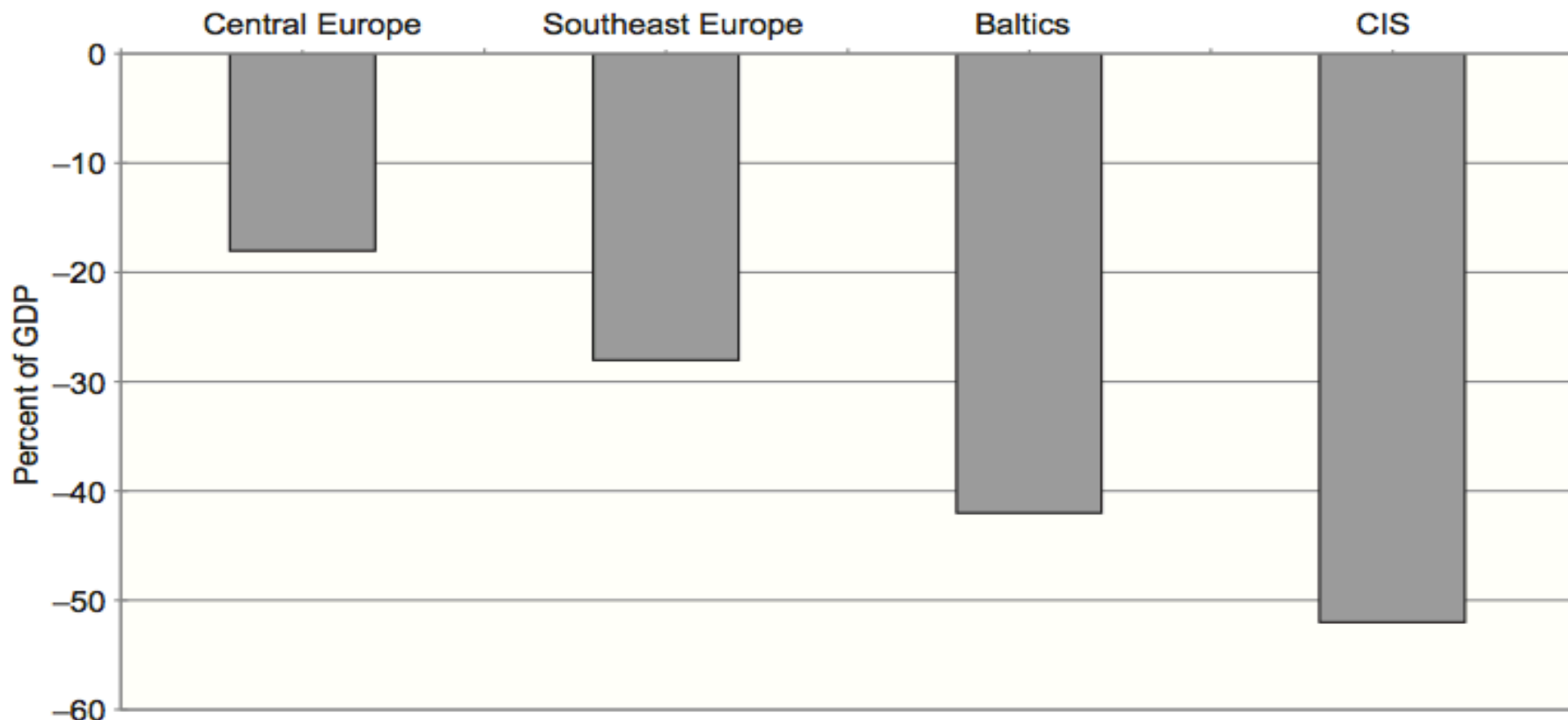


Figure 3.2. Total Official Fall in GDP from 1989 to Nadir. *Note:* Nadir years range 1991–93 for Central Europe; 1992–97 for Southeast Europe; 1994–95 for the Baltics; and 1993–98 for the CIS. *Source:* United Nations Economic Commission for Europe (2004, p. 80).

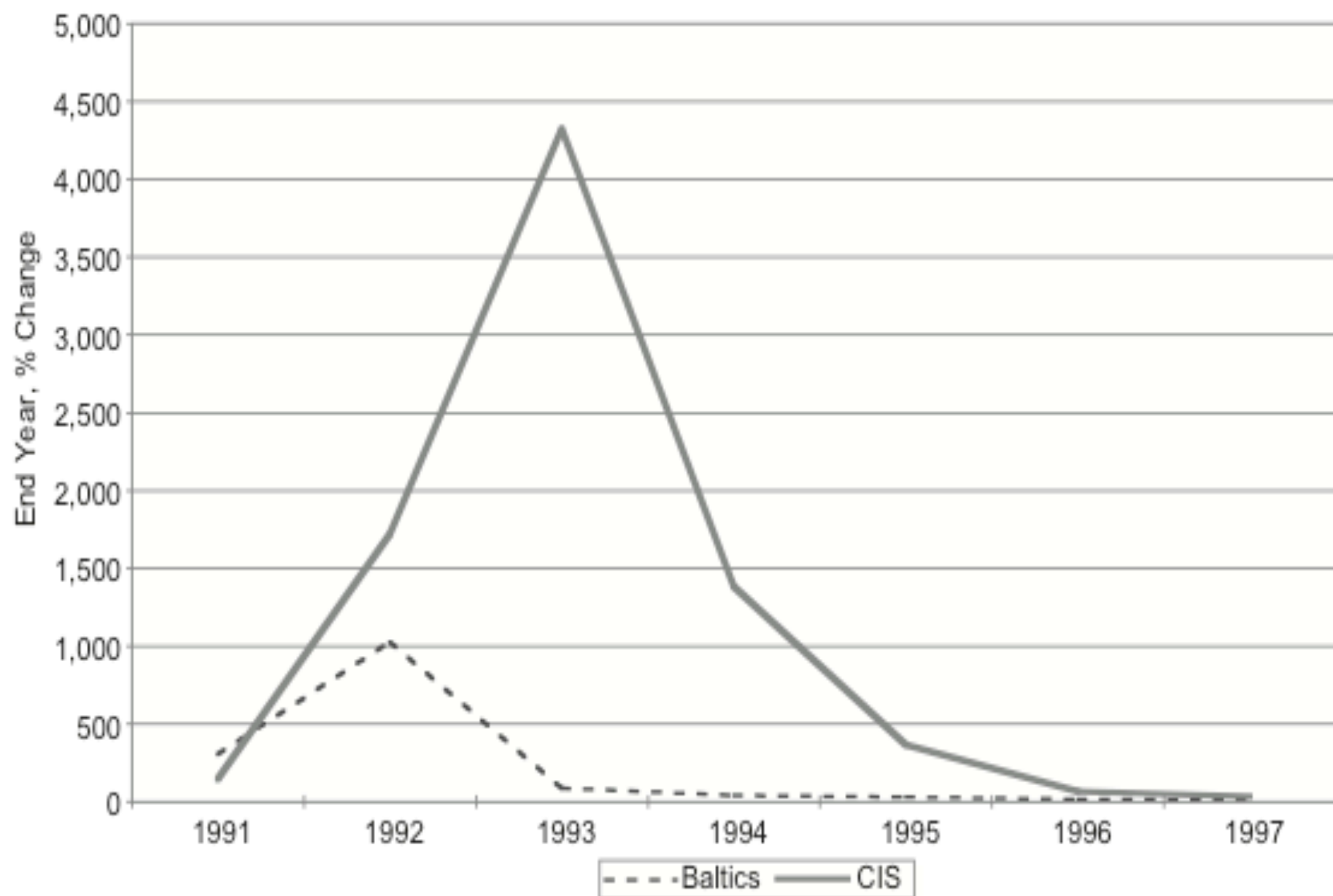


Figure 5.2. Inflation in CIS and the Baltic States, 1991–97. *Source:* EBRD (1999).

ECONOMIC 'NORMALIZATION'

SURVIVAL ECONOMY

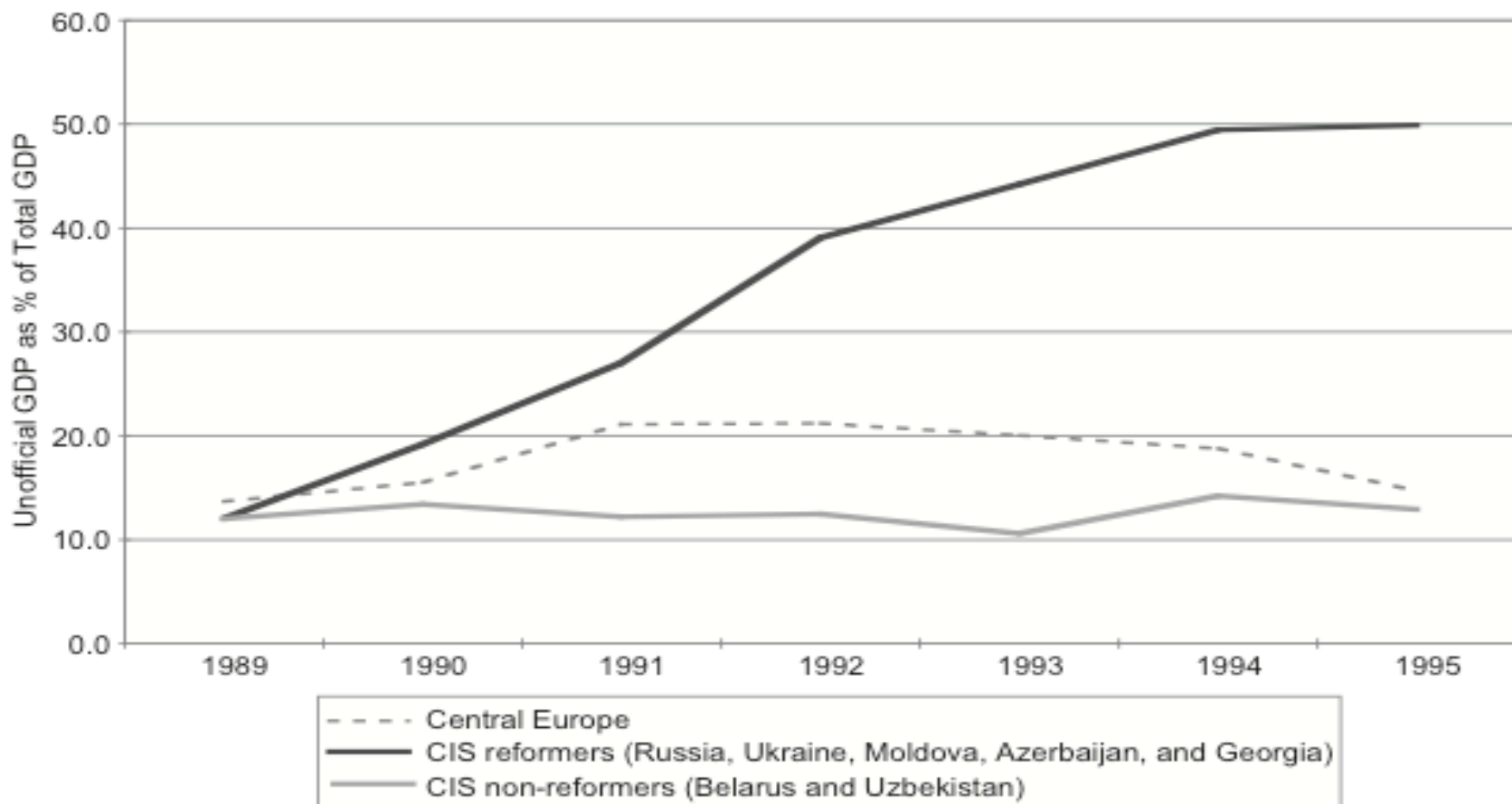
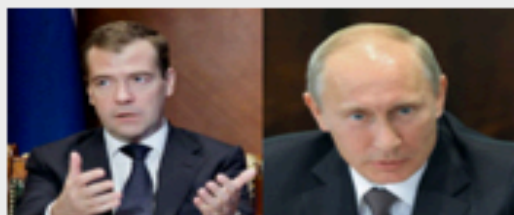


Figure 3.5. Underground Economy, 1989–95. *Source:* Johnson et al. (1997a, p. 183).



Leadership

President Dmitry Medvedev (left)
Prime Minister Vladimir Putin



Leadership

President Viktor Yanukovich (left)
Prime Minister Mykola Azarov

Wealth

Health

Democracy

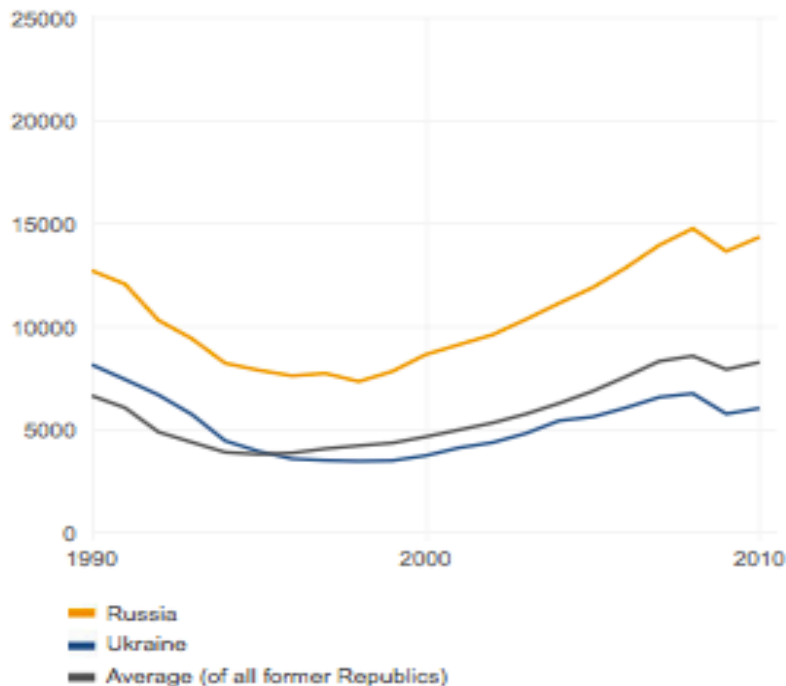
Wealth

Russia's economic power lies in its natural resources - namely oil and gas. These allowed it to emerge stronger than ever after two crippling economic events - the immediate post-Soviet transition period and the 1998 financial crisis that saw the ruble devalued, a default on domestic debt and a moratorium on payment to foreign creditors.

While overall wealth has grown over the last two decades the gap between rich and poor is widening. The bottom 40% are being paid less in real terms than they were in 1991, while only the top 20% have seen their incomes more than double.

National Wealth Since 1990

GDP per capita (constant 2000 US\$)



NB: Inflation but not the differences in the cost of living between countries has been taken into account

Source: Gapminder/World Bank

Wealth

Ukraine was once described as the breadbasket of Europe, producing more than a quarter of the Soviet Union's agricultural output. But the country went through a period of rapid economic decline and runaway inflation after independence. Although trade with EU countries now exceeds that with Russia, Moscow is the largest individual trading partner.

Ukraine depends on Russia for its gas supplies and forms an important part of the pipeline transit route for Russian gas exports to Europe. A dispute over price rises in 2006 and 2009 prompted Russia briefly to cut supplies.

The economy's dependence on steel exports made it particularly vulnerable to the effects of the global financial crisis of 2008.



Leadership

President Toomas Hendrik Ilves (left)
Prime Minister Andrus Ansip



Leadership

President Emomali Sharipovich Rakhmon



Wealth

Health

Democracy

Wealth

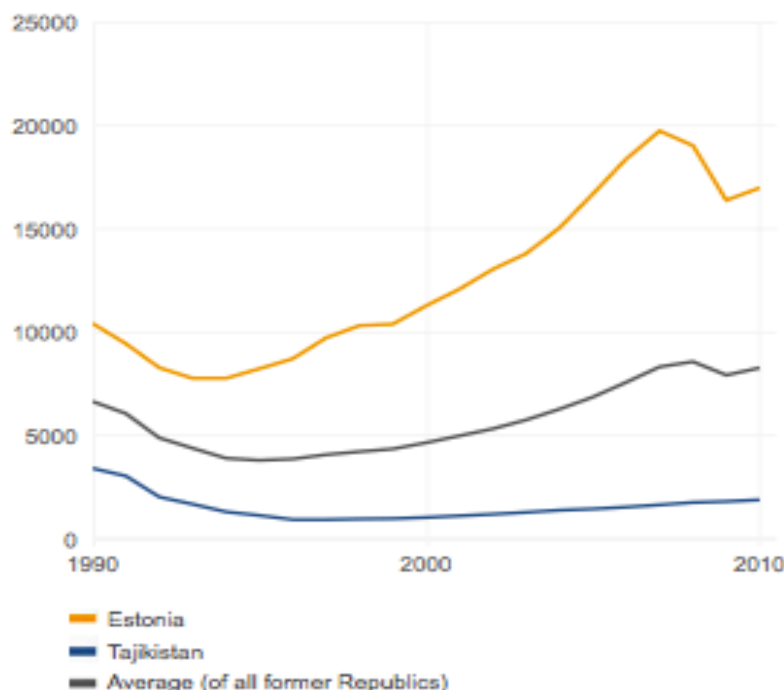
Estonia is the wealthiest of the 15 former Soviet Republics. It has a thriving electronics and telecoms sector and strong trade relations with Finland, Sweden and Germany. Like its Baltic neighbours, in the decade after independence Estonia made a rapid transformation to embrace the free market.

It joined the European Union in May 2004, which prompted an investment boom, but in 2008 its economy was hit by the global financial crisis. It had the EU's worst year for unemployment which soared to 15.6% in May 2009 from 3.9% the previous year.

The government adopted tough austerity measures and won plaudits for getting the economy back into shape ahead of entry to the European single currency in January 2011. The prime minister had aimed for eurozone membership in January 2007 but high inflation led the government to put back the target entry date.

National Wealth Since 1990

GDP per capita (constant 2000 US\$)



NB: Inflation but not the differences in the cost of living between countries has been taken into account

Source: Gapminder/World Bank

Wealth

Tajikistan is the poorest nation of all the 15 former Soviet republics. It was plunged into a five-year civil war soon after independence ending in 1997. Up to 50,000 people were killed and over one-tenth of the population fled the country.

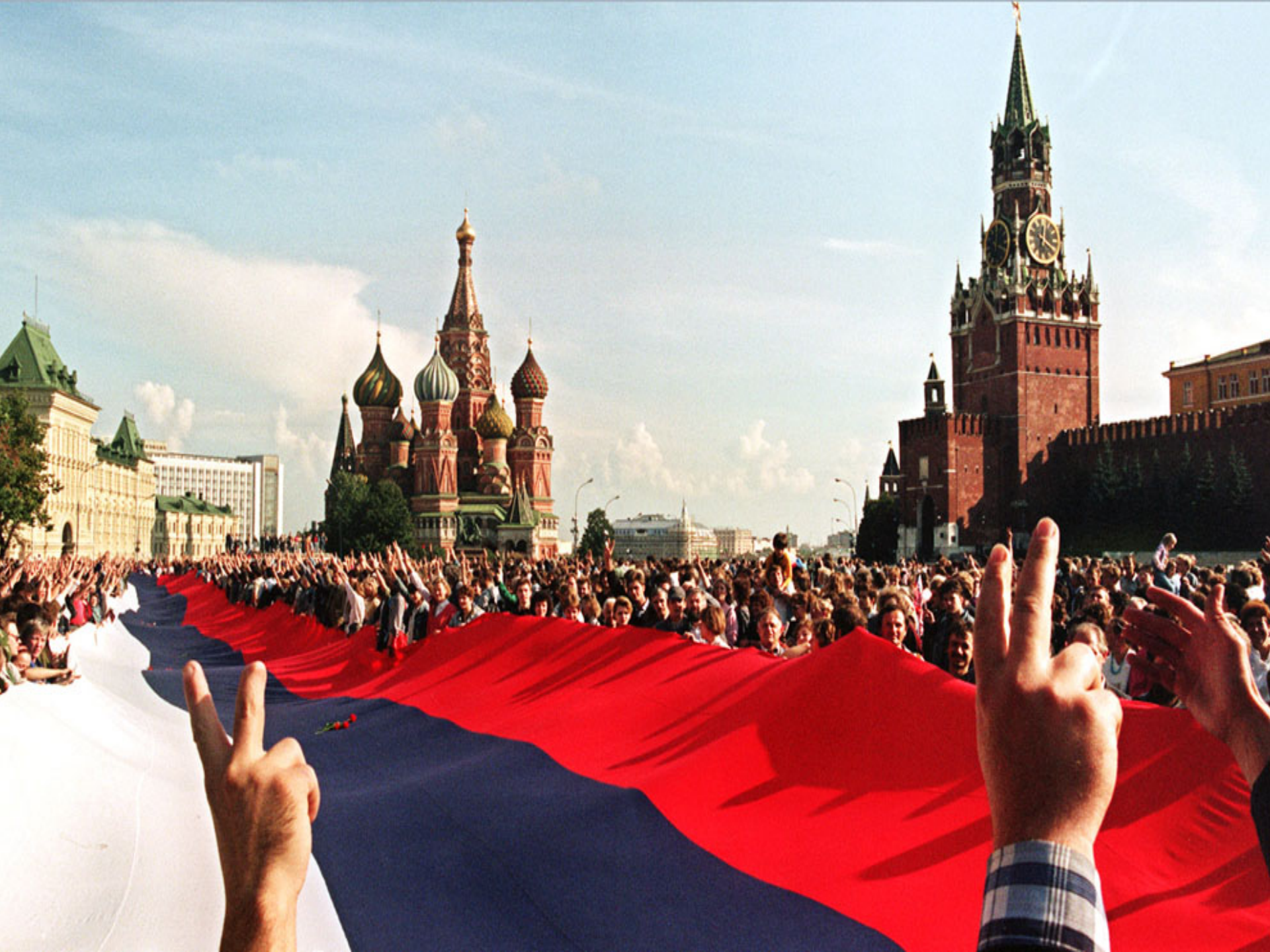
The economy has never really recovered and poverty is widespread. Almost half of Tajikistan's GDP is earned by an estimated two million migrants working abroad, mainly in Russia but the recession in 2009 threatened that income.

The country's main exports are cotton and aluminium but it is also dependent on oil and gas imports.

POLITICAL 'NORMALIZATION'

- ideological transition: ethnonationalism - social democracy - liberalism ethnonationalism
- demand for order and a need in new safety net within former Soviet administrative borders
- problematic separation of public and private spheres
- transformation of regimes into democracies (of different types)
- oligarchy and plutocracy: prolongation of transition
- deficit of citizens and dysfunctional civil society

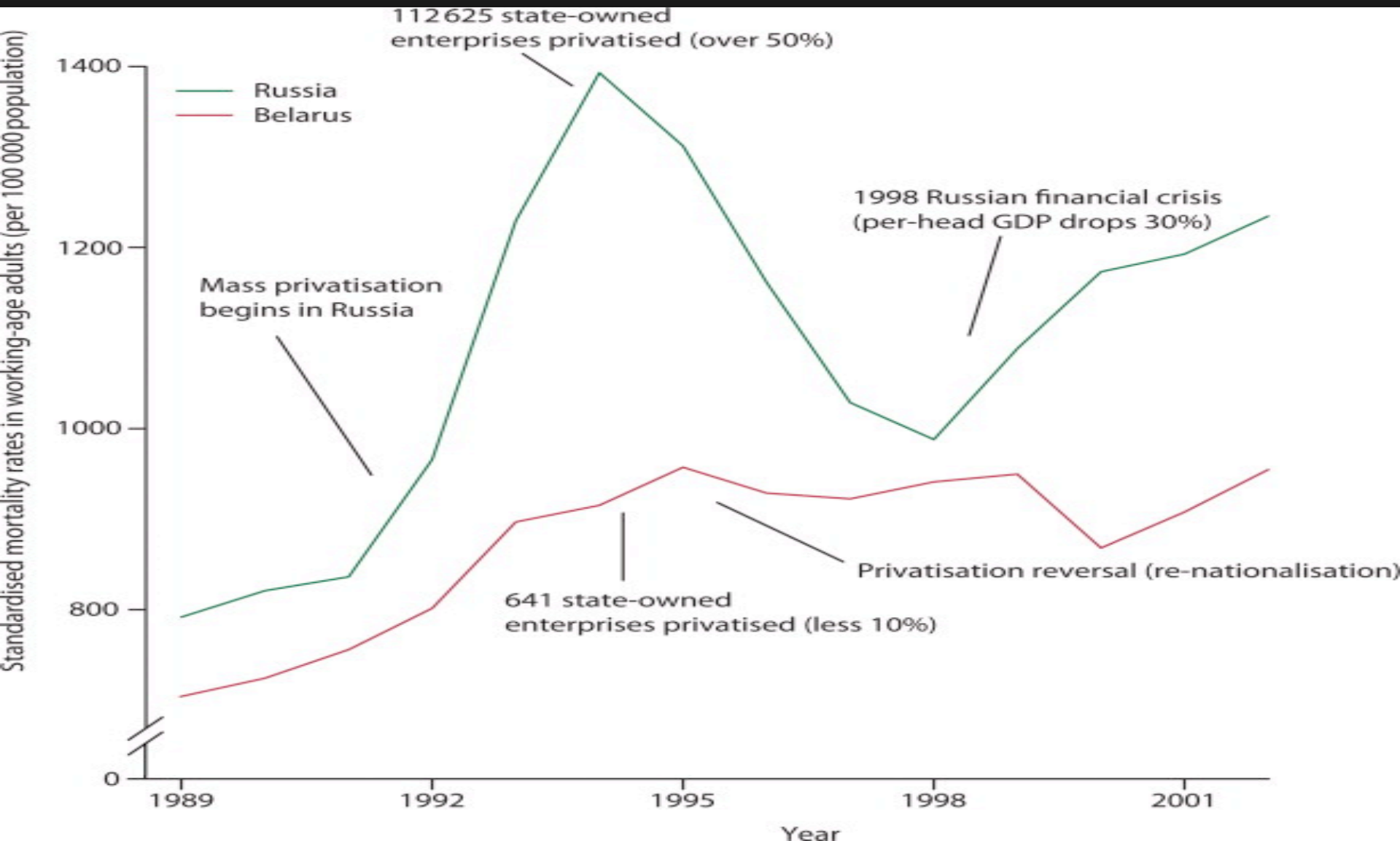








PRIVATIZATION



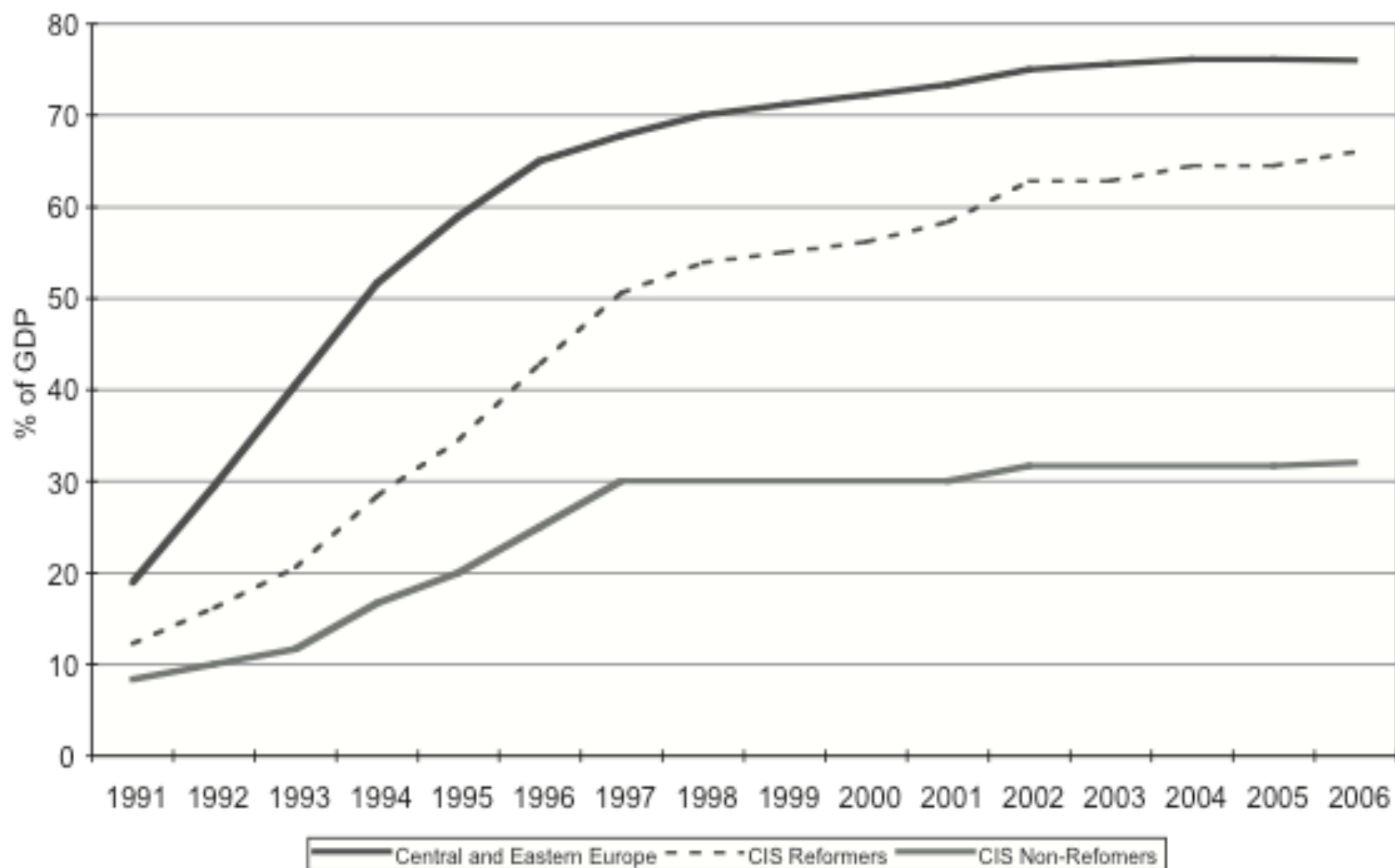
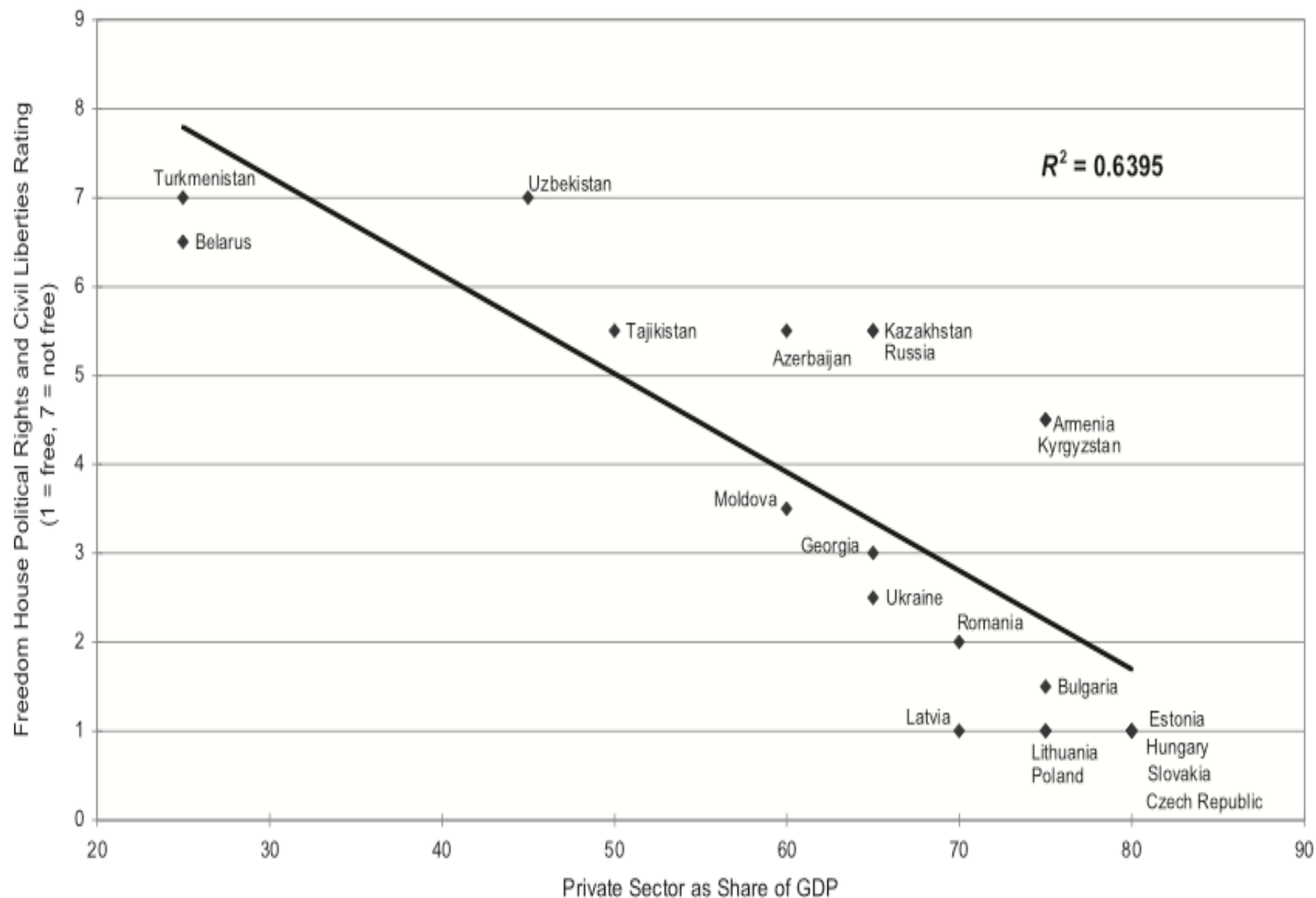


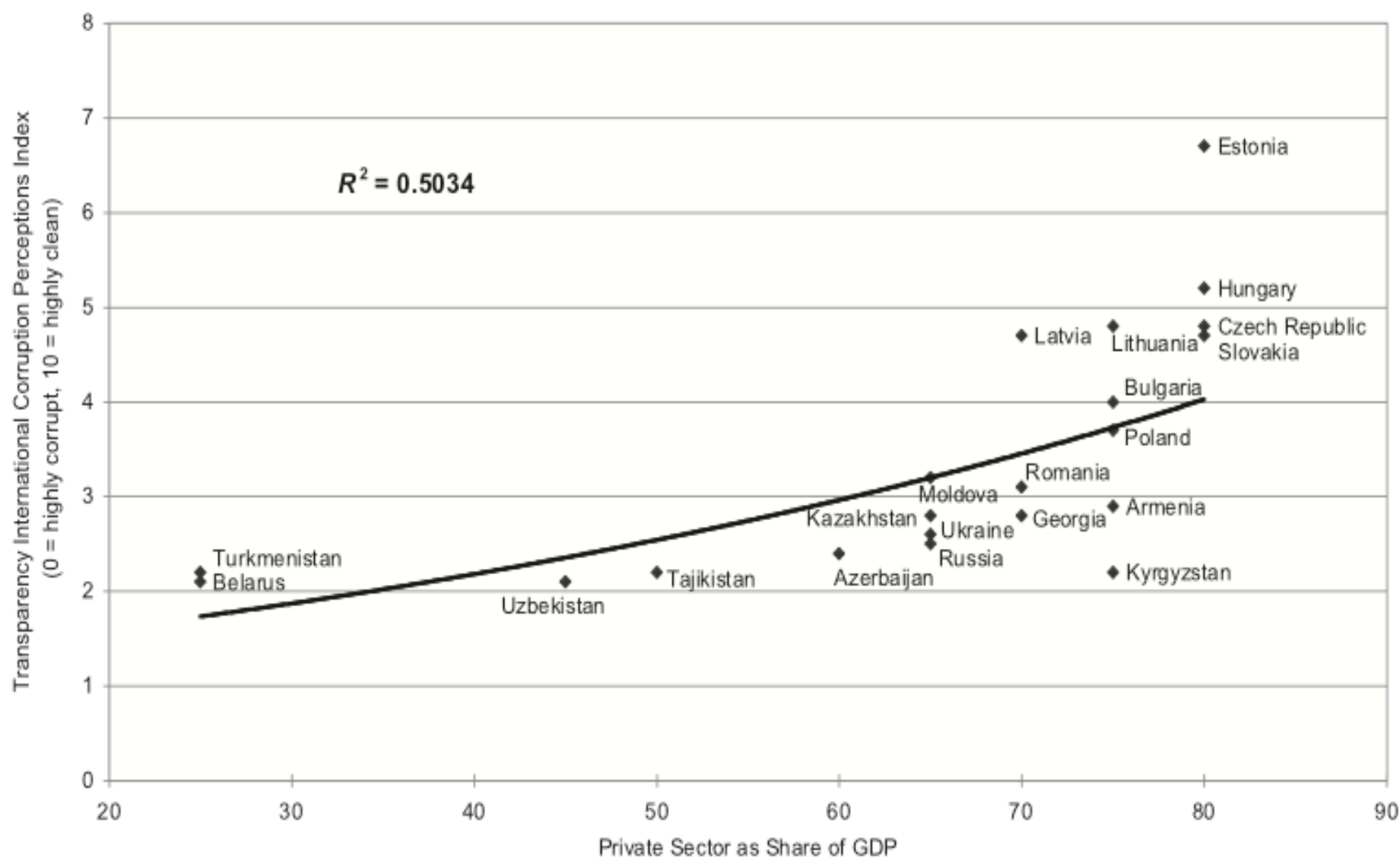
Figure 6.2. Private Sector as Share of GDP, 1991–2006. *Sources:* EBRD (2000) and (2006).

Figure 6.3. Democracy and Privatization, 2005.



Sources: EBRD (2005) and Freedom House (2006).

Figure 6.4. Privatization and Corruption, 2006.



Sources: EBRD (2006) and Transparency International (2006).

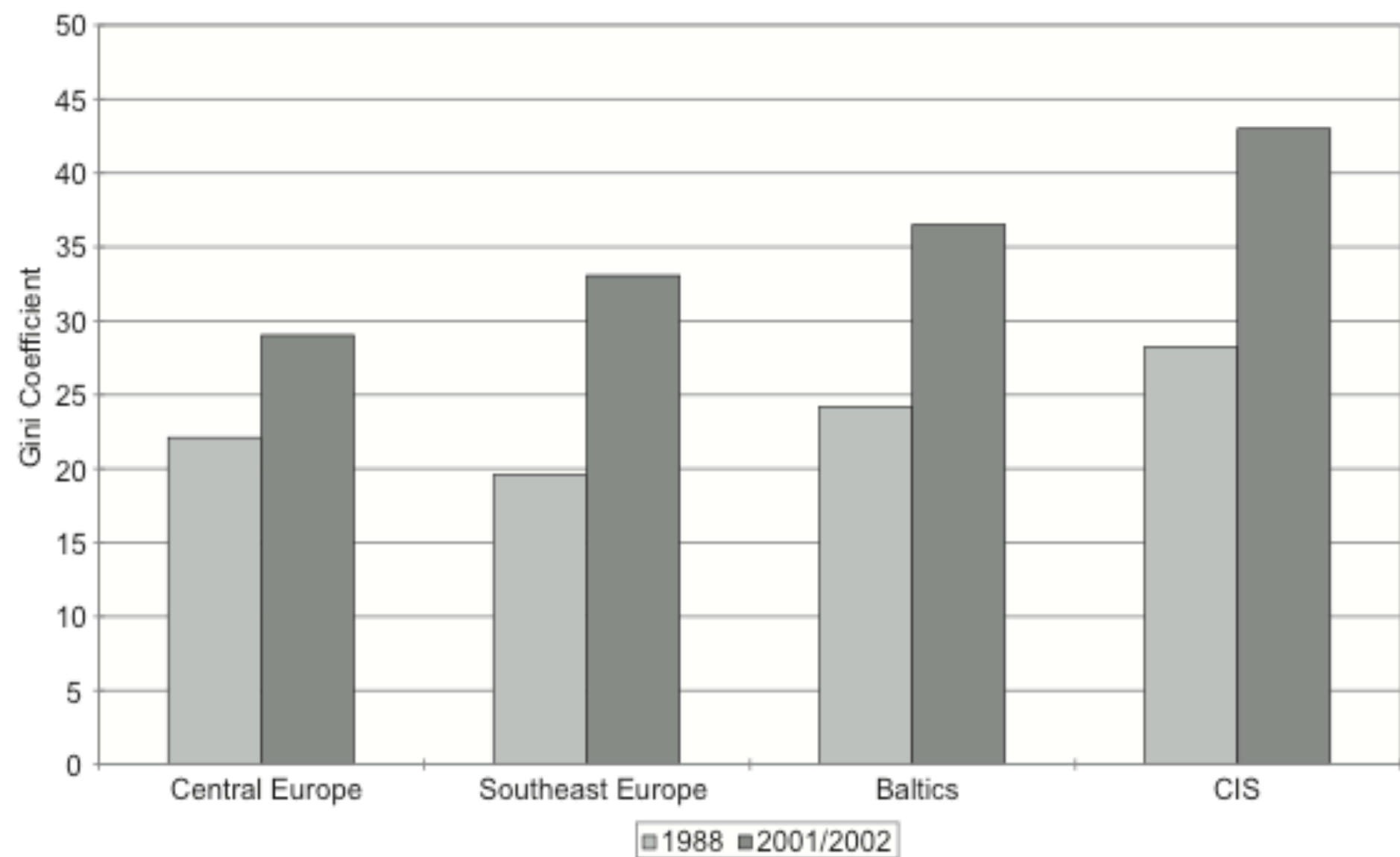


Figure 7.1. Inequality: Change in Gini Coefficients, 1988–2002. *Source:* UNU-WIDER (2006).

DEMOCRACY VS AUTOCRACY

- democratic regimes with market economies: the Baltic countries
- façade democracies with remainings of political and economic pluralism: Armenia, Georgia, Moldova, and Kyrgyzstan
- mild authoritarian regimes with economies favoring rent-seekers: Kazakhstan, Russia, Tajikistan, and Ukraine
- authoritarian regimes: Azerbaijan, Belarus, Turkmenistan and Uzbekistan

Table C.1. *Success of transition, 2005*

	Baltics	CE	SEE	CIS-9	CIS-3
Market economy ¹	Yes	Yes	Yes	Yes	No
Private share,% of GDP ²	75	79	73	64	32
Democracy ³	Free	Free	Free	Partially free	Not free
Corruption ⁴	5	4	4	3	2
Inflation ⁵	4	3	7	7	9
Unemployment rate,%	8	12	9	7 ⁶	NA
Average GDP growth,%, 2001–5	8	4	5	9	8
Public expenditures,% of GDP, 2004	35	46	42	27	35
EU membership	Yes	Yes	Soon	No	No

1. At least 0.70 on the structural reforms index 2005 (see Figure C.1).

2. European Bank of Reconstruction and Development (EBRD 2005) assessment.

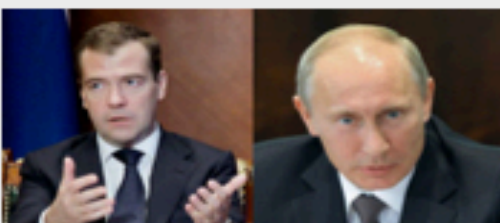
3. Freedom House (2006) assessment.

4. Transparency International (2005) (from 0 = highly corrupt to 10 = highly clean).

5. Average consumer price index, year end.

6. CIS-9 countries with plausible statistics (Armenia, Kazakhstan, Moldova, Russia, and Ukraine).

Sources: EBRD (2005), Freedom House (2006), Transparency International (2005), United Nations Economic Commission for Europe (2006), and World Bank (2006).



Leadership

President Dmitry Medvedev (left)
Prime Minister Vladimir Putin

Democracy

President Yeltsin, the first democratically elected leader of post-Communist Russia, ensured the power of president remained strong. Since 2000 Vladimir Putin has dominated leadership of this powerful nation.

Mr Putin's chosen successor, President Medvedev, was sworn in in 2008 as Russia's third president since the fall of the USSR. Many believe that Mr Medvedev may still be playing second fiddle to Mr Putin, now prime minister. There is also speculation that Mr Putin may stand for the presidency again when his successor's term ends in 2012.

Press and TV is a regular target for criticism and condemnation from media freedom watchdogs. Russian journalists run the risk of attack and even murder if they delve too deeply into sensitive subjects such as corruption, organised crime or rights abuses.



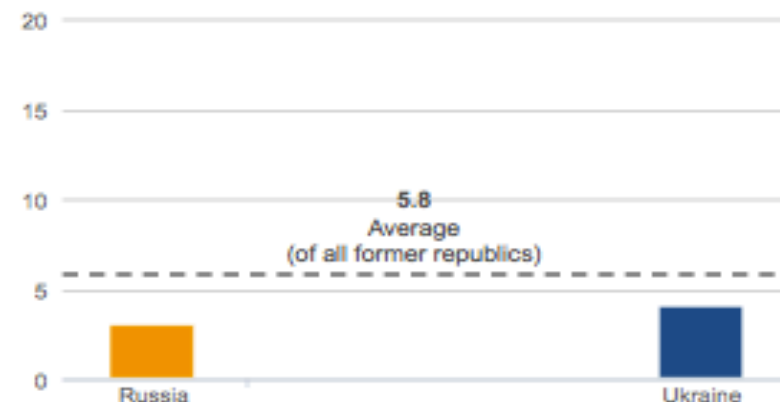
Wealth

Health

Democracy

Autocracy or democracy

Number of leadership* changes since 1990



Press freedom

World ranking

140

Russia

131

Ukraine

NB: *Leadership = president, except Estonia, Latvia, Lithuania, Moldova where leadership indicates prime minister

Source: Reporters without borders, Press Freedom Index, 2010



Leadership

President Viktor Yanukovich (left)
Prime Minister Mykola Azarov

Democracy

The 2004 Orange revolution allowed the pro-Western Viktor Yushchenko to work towards make democratic reforms and media freedom. But his efforts to move towards Nato and EU membership made slow progress because the West was reluctant to antagonise a resurgent Russia and the Ukrainian public were divided on the matter.

His rival, Viktor Yanukovich, made a dramatic political comeback, winning the 2010 presidential election. He says his aim is to balance relations between Russia and the West, with EU integration as a "strategic aim". However, the speed with which he agreed to extend the Russian lease on the Black Sea Fleet base in Crimea raised opposition suspicions of this balance.

In 2010, watchdog Reporters Without Borders said "multiple press freedom violations" had been recorded since Mr Yanukovich return to power.



Leadership

President Toomas Hendrik Ilves (left)

Prime Minister Andrus Ansip



Wealth

Health

Democracy



Leadership

President Emomali Sharipovich Rakhmon

Democracy

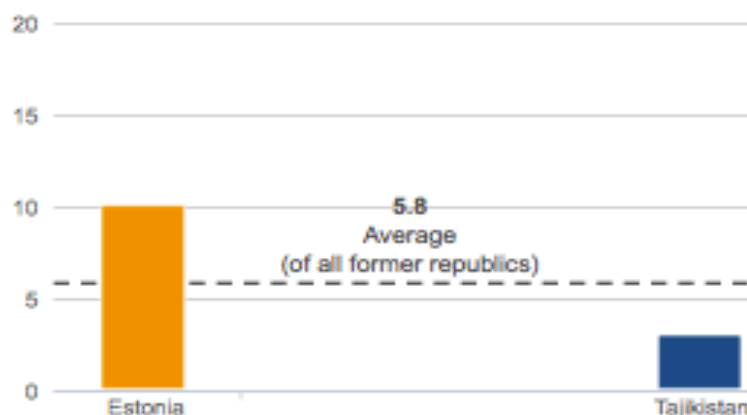
Estonia is a western-style democracy with regular free and fair elections. Toomas Hendrik Ilves is president, but the role is mainly ceremonial.

The centre-right coalition led by Andrus Ansip increased its parliamentary majority in elections held in March 2011. Mr Ansip was Estonia's first sitting prime minister to be re-elected since the country left the Soviet Union in 1991.

The country held the world's first parliamentary "e-vote" in 2007. Estonia ranked ninth out of 178 nations in the 2010 Reporters Without Borders press freedom index.

Autocracy or democracy

Number of leadership* changes since 1990



Press freedom

World ranking

9

Estonia

115

Tajikistan

NB: *Leadership = president, except Estonia, Latvia, Lithuania, Moldova where leadership indicates prime minister

Source: Reporters without borders, Press Freedom Index, 2010

Democracy

President Emomali Rakhmon has had a firm grip on power since 1992. Western observers said legislative elections in 2005 and 2010 failed to meet international standards. In 2006 the president won a third term in office in an election which international observers said was neither free nor fair. Opposition parties boycotted the vote.

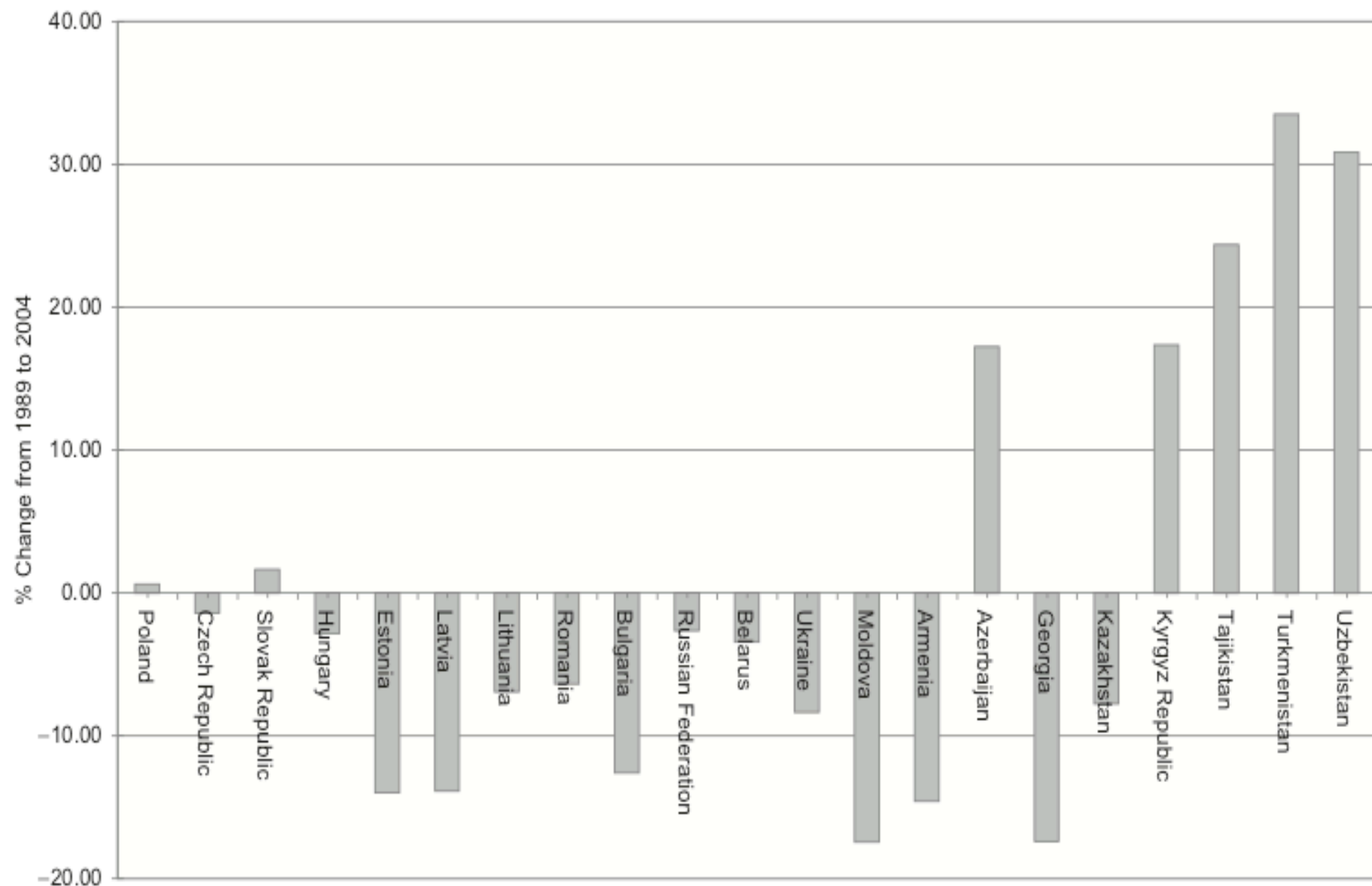
President Rakhmon does, however, retain substantial public support because he helped bring an end to civil war of the 1990s. The government often justifies restrictions and oppressive measures with a need to combat Islamic extremists.

Media rights organisations report that, although provided for in the constitution, press freedom is not widely respected. Freedom House says independent journalists face harassment and intimidation.

POST-SOVIET HUMAN

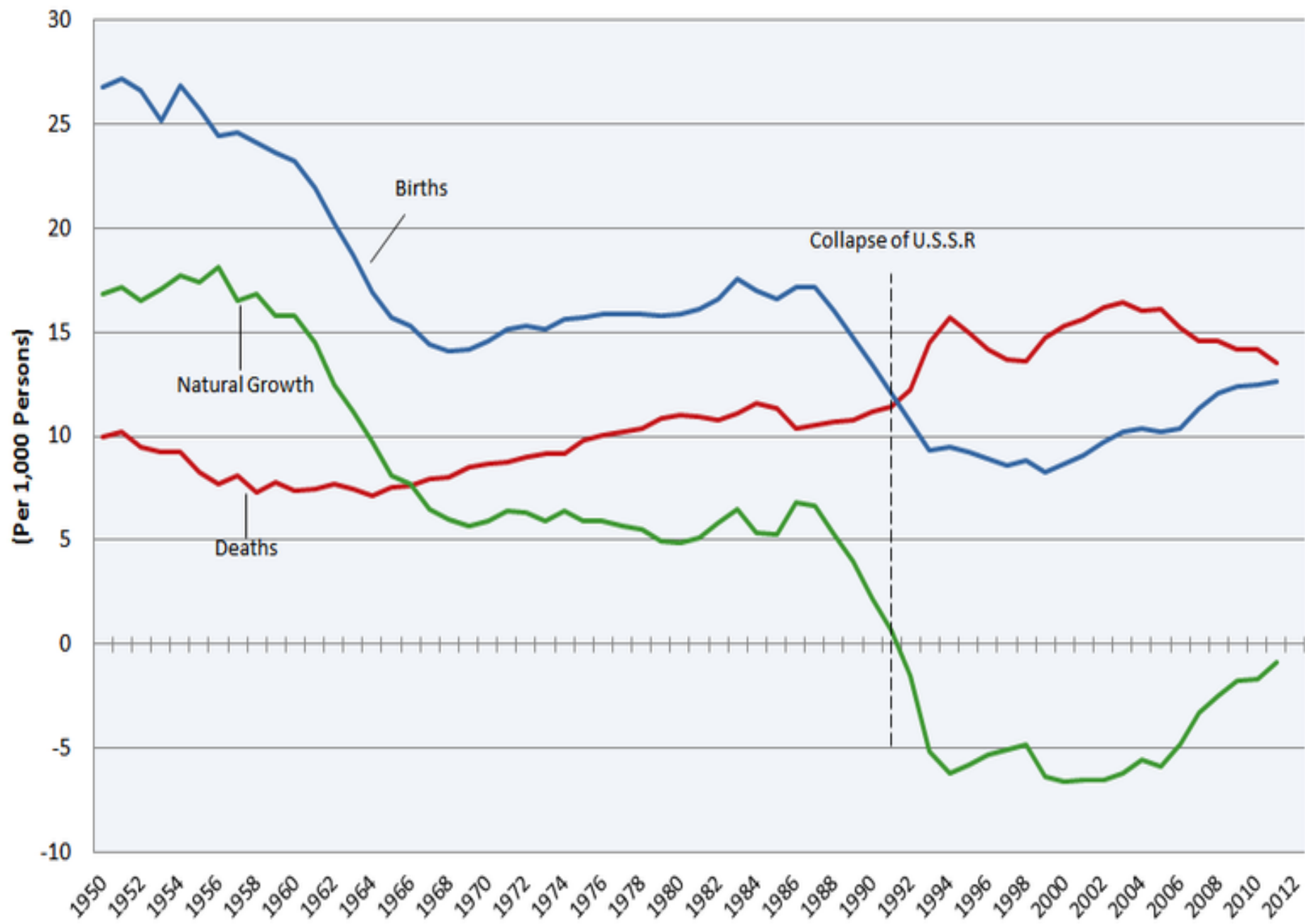
- money value and consumer society
 - distrust and social fragmentation
 - conflicting individualism
 - new interest in collectivism and irrationalism : radical nationalism and conservatism
 - depopulation
 - lost in transition
-

Figure 7.4. Population Change, 1989–2004.



Source: World Bank (2006) and United Nations Economic Commission for Europe (2006).

Natural Population Growth of Russia



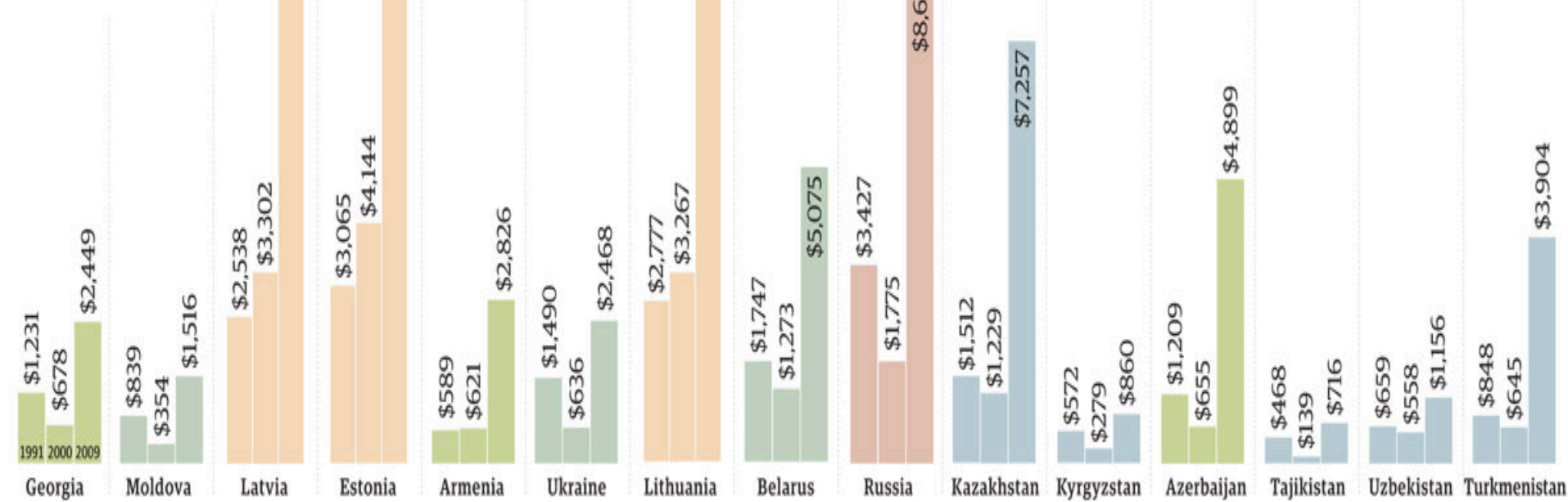
Total population

Population, 2009 and % change from 1991



The wealth of nations

Per capita GDP in current US\$



WISDOM OF 'WILD 1990-S':

KARL MARX WAS WRONG ABOUT SOCIALISM,
BUT HE WAS DAMN RIGHT ABOUT
CAPITALISM

POST-SOVIET HUMAN ON USSR COLLAPSE

Approval of Change to Democracy

% Approve of
change to...

Multiparty system	<u>1991</u> %	<u>2009</u> %	<u>Change</u>
East Germany	91	85	-6
Czech Rep.	80	80	0
Slovakia	70	71	+1
Poland	66	70	+4
Hungary	74	56	-18
Lithuania	75	55	-20
Russia	61	53	-8
Bulgaria	76	52	-24
Ukraine	72	30	-42

Question 12.

Approval of Change to Capitalism

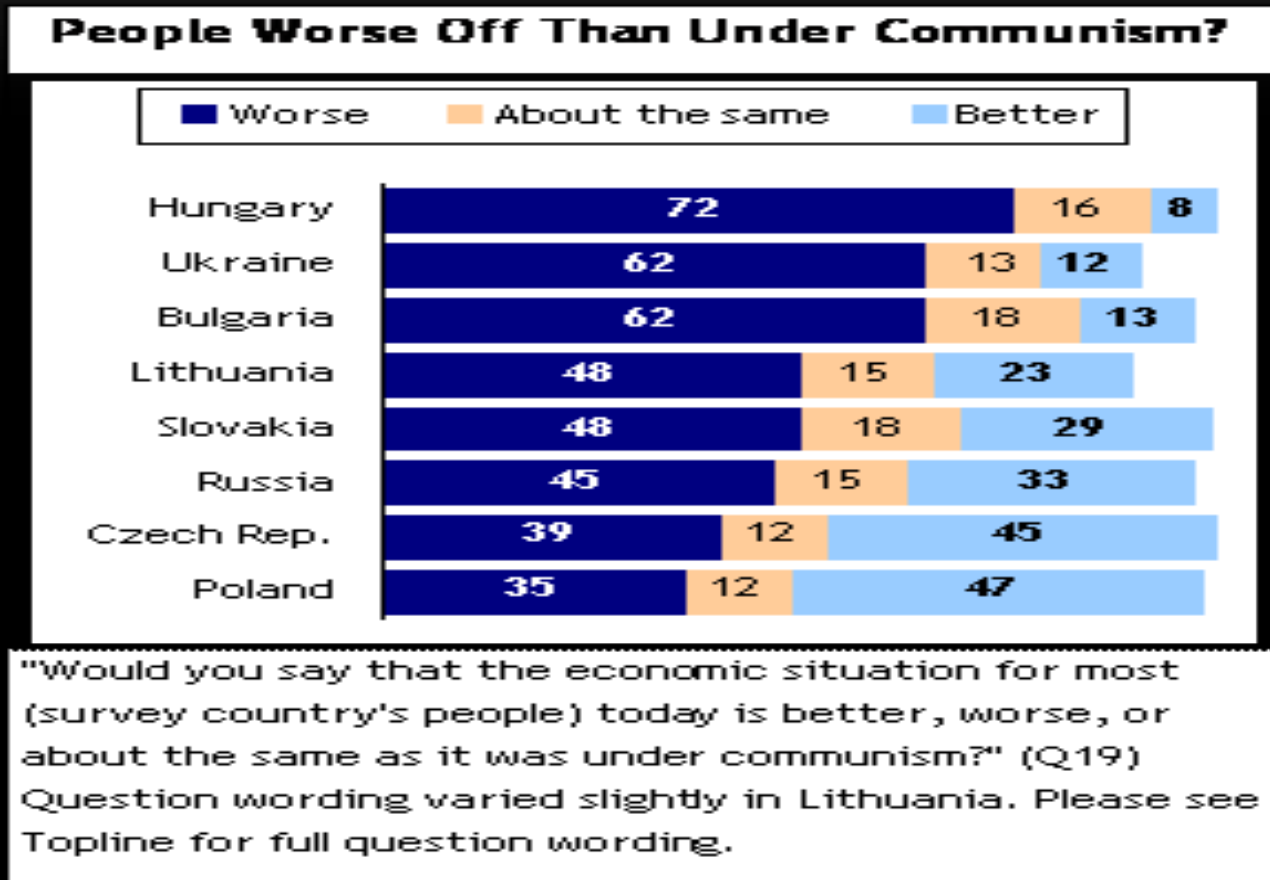
% Approve of
change to...

Market economy	<u>1991</u> %	<u>2009</u> %	<u>Change</u>
East Germany	86	82	-4
Czech Rep.	87	79	-8
Poland	80	71	-9
Slovakia	69	66	-3
Bulgaria	73	53	-20
Lithuania	76	50	-26
Russia	54	50	-4
Hungary	80	46	-34
Ukraine	52	36	-16

Question 13.

source: The Pulse of Europe 2009: 20 Years After the Fall of the Berlin Wall

POST-SOVIET HUMAN ON USSR COLLAPSE



source: The Pulse of Europe 2009: 20 Years After the Fall of the Berlin Wall

INTERIM CONCLUSIONS

- History and its challenges are back in fSU countries
- Questionable legitimacies of political regimes
- Future as source of danger, territory as challenge
- Transition with no final point



THANK YOU
FOR YOUR ATTENTION!