

# The Moscow Times • com

## Unique Russian Values

Russian officials commonly justify anti-market economics by citing the Russian public's "nonliberal" values. Policymakers often refer to the fact that the majority of Russians would prefer to reverse the privatizations of the 1990s and return to regulated prices.

Is it true? Should — and could — anything be done about it?

Recent research suggests that anti-market sentiment is indeed shared by the majority of Russians. Moreover, it may be a rational response to the country's economic and societal realities.

Ironically, the research also implies that in order to change these attitudes, the government should commit to fighting corruption, reforming the economy, allowing free public debate and improving the education system.

There is a long tradition to claim "Russian exceptionalism" — especially in terms of "mentality" or "spirituality" or the "mystery of Russian soul" being not compatible with a market economy and democracy. However, many countries have gone through enormous changes in values within reasonably short time spans. East and West Germany, and likewise North and South Korea, managed to build very different values within just one generation. And it looks as if it is going to take no more than one generation for East Germans' values to revert back to Western European norms.

Also, many European countries have lost their colonies and have overcome the post-imperial syndrome. While this process is always painful, it is crucial to make sure there are no reversals. Politicians should be responsible; they must resist the temptation to use imperial nostalgia to solve their short-term problems.

Most important, changes in values can be driven by citizens' rational interests. Modern political economic literature suggests that there may be situations in which a majority of citizens benefit from the status quo and oppose reforms, even though reforms would create a pro-reform majority after they are carried out. This occurs before reforms happen whenever the majority is certain that there will be benefits from said reforms but is not sure who will benefit from them.

This is known as the "status quo bias" and was spelled out in an influential paper by U.S. economists Raquel Fernandez and Dani Rodrik. It is thought to describe the situation in many European countries where crucial pro-market reforms have been discussed for decades but are never carried out. Recent empirical work suggests that this theory is also relevant for Russia.

A comprehensive "Life in Transition" survey conducted by the European Bank for Reconstruction and Development in all transition countries in 2006 showed that Russians are rather unique in their negative attitudes toward democracy and markets. Probably the most worrisome result of this survey was the fact that the negative attitude to markets was not only prevalent among the older generation but also among younger Russians, who more strongly opposed markets and private property than middle-aged respondents.

This finding is confirmed by all other recent polls. For example, in FOM data on attitudes to markets and the Western model of society, Russians in their 20s are more pro-Soviet than Russians between 30 and 40 years old.

How can one explain this puzzle? A recent paper by my colleagues Irina Denisova and Yekaterina Zhuravskaya — co-authored with Markus Eller from Austrian National Bank and Tim Frye from Columbia University — sheds light on this question. They look at the "Life in Transition" data on attitudes toward privatization across all transition countries. The major finding is that negative attitudes are explained by very pragmatic benefits from privatization: Nationalization is supported by poor and less educated individuals.

This is perfectly rational because these individuals expect to benefit from state support rather than from a market economy. More interesting, the support for privatization among entrepreneurs is also not universal but depends instead on the quality of institutions in the respective country. Essentially, only in countries with good institutions — a high quality of governance — do entrepreneurs support privatization. If the institutions are

weak, then the entrepreneurs fear expropriation and do not support privatization.

What should we make of these results? First and foremost, the government should fight corruption. Second, there should be a free debate on the benefits of a market economy, competition and private property. The current pro-Soviet stance of the state media not only conforms to extant views of the Russian public; it also strengthens stereotypes about the benefits of state intervention by providing false arguments concerning the relative prosperity of the Soviet Union. The argument that the Soviet Union disappeared because it was bankrupt — and not thanks to a CIA conspiracy to bring it down — is obvious for anyone who looks at the macroeconomic data of late 1980s and early 1990s. But this argument is conspicuously absent from policy debates.

Yet another crucial challenge is to reform the education system. Russian students should obtain skills that are adequate for the market economy. Otherwise they will — rationally — support populist interventionist policies and rely on a paternalistic state.

02 April 2009

By Sergei Guriev

*Sergei Guriev is rector of the New Economic School in Moscow.*