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#### RUSSIAN MINDSET AND THE “SPIRIT OF CAPITALISM”

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#### *Abstract*

Since the second half of the 20<sup>th</sup> century, many countries tried to hit the transition from traditional routine economy to modern economy based on innovations. In the late 1980s and the early 1990s the countries of the collapsed “socialist” block refused from the centralized economy and moved towards competitive markets. But only a few managed to fulfill their intentions and join a relatively small circle of developed capitalist countries. Others either stopped halfway, having only slightly reduced the welfare lag from “powers that be”, or turned back and now, as well as many years ago, there is a huge gap between them and advanced countries. This result looks especially surprising that many countries, which decided to escape from the old patterns, were in almost equal “initial” conditions in terms of their material status, such as the degree of economic industrialization, condition of infrastructure, education of the population and the level of its welfare. To explain this paradox of “divergence” between countries the scientists had to address the role of non-material factors of economic development. The hypothesis of cultural capital was one of the concepts explaining the differentiated results of such transition. It is considered that the cultural capital of a country may either contribute to or prevent its economic development. The purpose of the study is to check the operability of this hypothesis using a specific example. The Russian society, the Russian mindset and worldview developed at the beginning of socialist economy became the object of the study.

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## 1. Introduction

The German reunification in 1989 and the ensuing crash of socialist (planned) economy were followed by a variety of interesting outcomes and consequences in the field of social policy and economy. Some of the most surprising was the fact that the countries of the socialist block started at the distance separating the planned economy from the market economy from approximately similar positions but achieved different results.

Initially the structure of economy and the system of economic relations of these countries were quite similar, all countries used approximately the same scenario of “post-socialist transition”. However, immediately upon radical market reforms some countries began to deviate from the basic scenario of reforms, and thirty years later some countries joined the most conservative adherents of competitive economy while the others got lost and returned to their initial positions. The first countries refused any rudiments of “planned economy” and at the moment enjoy all advantages of the market. The second returned to a wide use of conscious intervention tools in the economy. The most prominent features of such countries were the following: prevalence of public property, multiple monopolized structures, restriction of competition, rudest intervention into the market mechanism (up to bureaucratic control over prices). Decrease in resource efficiency and welfare of the majority of the population was the price of such experiments. The need for market reforms in such countries is particularly acute as it was three decades ago.

## 2. Problem Statement

In October 1917, the party professing hitherto unprecedented standards of social and economic behavior, which it was immediately putting into effect, came into power in Russia. Human values were replaced by the economic principles of the Bolshevism, therefore in the beginning the economic program faced insuperable difficulties. It seemed that the socialist economy will have short life, but the Bolsheviks used violence in the most radical forms and achieved their desirable goal – to build a socialist economy on the 1/6 of the Earth. Later, the territory of the socialist economy considerably expanded mainly due to Eastern European countries and China in particular.

Despite considerable resources of the socialist countries it was obvious (Hayek, 1944; Lange, 1938) that they failed to achieve considerable economic progress or at least to maintain the welfare of the population at the level of developed “capitalist countries”. In 1989 the history turned back – the socialist block collapsed and its countries began searching for ways to return to efficient economy. In 1991 the Soviet Union collapsed and was split into 15 independent states. These countries, or rather their political leaders, were looking for economic models which would satisfy their interests to the fullest extent.

It was interesting to observe the countries once constituting the USSR in their search for the optimum economic model. The Baltic States (Latvia, Lithuania and Estonia), which steered a steady course towards the market economy and thus achieved the outstanding progress, were at one extreme. One fact is especially impressive – neither falsities of the transition period in the early nineties of the 20<sup>th</sup> century, nor the consequences of the global financial crisis in 2008-2010 forced these countries to turn back or at least to slow down their market reforms (Aslund, 2011).

On the other end of the spectrum there were the countries of the Central Asia – Kazakhstan, Tajikistan, Turkmenistan, Uzbekistan with their Oriental despotism followed by intrigues, palace coups and transition of power within a dynasty.

### **3. Research Questions**

The study will be focused on the history of the market economy in Russia. Similar to other socialist countries, Russia was consciously moving towards the market economy. The country faced enormous difficulties. Hyperinflation destroyed savings of the population accumulated throughout the period of socialist economy. By 1998 the GDP fell twice in comparison with 1989. Unemployment increased and reached almost 14%. The standard of living decreased by a quarter. When it seemed that the economy already “climbed up the plateau” the country faced the balance of payment crisis and the catastrophic devaluation of the ruble. However, these events did not affect the resolve of the elite to complete the reform. The efforts were rewarded with a long-awaited economic growth, which began in 1999, and the balanced budget of the country. The strategy of competitive market economy fully proved its value. This was Russia into the 21<sup>st</sup> century.

### **4. Purpose of the Study**

At the beginning of the 21<sup>st</sup> century Russia faced considerable changes in its economic and political reforms. We shall answer the following questions. Why Russia turned back? Why 27 years later after the reforms, the Russian economy faced that situation? Why public property prevails in the economy? Why budget income is aimed to support commercially insolvent enterprises?

### **5. Research Methods**

The paradox of “divergence” between countries from a similar starting point of the planned economy could not but draw the attention of scientists. Soon they were convinced that the “material” grounds could not explain the nature of this paradox. Then scientists were more up to a hypothesis, according to which the reason for unequal success within market reforms was the differences in the system of values of people which faced the need to choose between market or planned economy. It turned out that the problem of economic differentiation of the countries, which are at that time were in approximately equal economic conditions, does not go beyond the opposition between “socialism” and “capitalism”. Phelps (2013) considers it wrong to automatically include all countries, which rejected the planned economy, into the category of capitalist countries. He rejects the definition of “capitalism” thus suggesting a concept of “modern economy” as “the economy based on innovations”.

The concept “cultural capital” was used in the 1970s by Bourdieu and Passeron (1990). The authors believed that the cultural capital consists of the forms of knowledge, skills, education and advantages of a personality, which give [him or her] higher social status. Parents invest into the cultural capital by transferring their children the relevant patterns and knowledge necessary for success in the current educational system. Later, Grondona (2000) developed the theory of economic development based on the

typology of cultural characteristics, which allow comparing cultures favorable to economic development (high level of cultural capital) and cultures rejecting it (low level of cultural capital).

The search for non-material reasons for economic differentiation of the countries dates back to the 19<sup>th</sup> century. It opposed the materialistic theories of Marx (1883) expressed in terms of property by means of production and colonial operation. *The Protestant Ethic and the Spirit of Capitalism* by Weber (1905) left a large footprint on the sands of the economic thought. For the first time the differentiation of wealth was explained by conflicting hierarchies of religious values of various communities. The question, why western countries managed to find efforts ensuring the economic growth, is still among the most urgent and widely discussed by historians and representatives of the institutional economy (Mokur, 2005; Rosenberg & Birdzell, 1986).

## 6. Findings

On 2 January 1992, Russia launched the program of market reforms having declared the introduction of free deregulated prices for the majority of goods and services. The failures of planned economy were too obvious for the Government of the Russian Federation to be wrong concerning the transformation program. The vast majority of enterprises was state-owned. For decades the companies have been functioning under “soft budgetary restrictions” (Kornai, 1990). There was no competition, all prices were regulated. The enterprises lost the incentive to control their expenses, which resulted in the rapid growth of the state budget deficit. Manufacturing enterprises were siphoning off the overlarge share of the budget without leaving a chance for the Government to perform its social functions. The deficit of the state budget became that disease, which, eventually carried the USSR off. The distribution of income was mainly based on the egalitarian model. It was the price, which the population paid for paternalistic functions of the state. Finally, the economy was almost isolated from the world market of labor, goods and capital. Political authorities, as well as the majority of the population, perfectly realized the economic model they rejected. How was it possible that now the Russian economy is facing exactly the same situation that it was escaping from? Why is it facing the same dangers as the last century? Why Russians failed to break new grounds towards a truly market economy on the first try? What circumstances prevented this to happen?

The first answer coming to mind is that Russians were not ready to use the opportunities of the market economy to achieve personal success. This mainly happened since the values forming the cornerstone of the market economy contradict the culture (including economic) of Russian people. To assess the compliance of the Russian culture with the conditions ensuring the economic progress let us address to the “Typology of societies with the high level of cultural capital and low level of cultural capital”. This typology is made by Harrison (2016). It includes 25 factors of cultural capital grouped into four directions: (I) worldview, (II) values (virtues), (III) economic behavior and (IV) social behavior.

Let us recall the main characteristics of the state which made it into the history as the USSR. Formally the USSR was founded in 1922, but in fact the basic principles of the “Soviet” state began to be used since 1918. From the very beginning it was the state of victorious bureaucracy. The rent from the monopoly position of the state bodies was the main source of income for the ruling elite. The authoritarianism became the only form of government in the conditions when the rent was collected due to rigorous exploitation of the population. The competition was fully eliminated both from the economy where

all means of production were owned by bureaucracy, and from political life with only one domineering party. Political power was transferred inside bureaucratic groups. The communistic utopia became the official religion. However, since this religion ignored fundamental human values and was completely out of touch with socialist reality, it failed to get into the consciousness of wide segments of the population. Eventually the gap between official rhetoric and reality led to full alienation of political power. The dissent was sometimes cruelly pursued. The income of the population was tightly controlled by the state (which was the only employer). Sometimes the state carried out confiscatory attacks on the welfare of its citizens. The strive towards personal wealth was morally condemned and criminally prosecuted. Perhaps, it was enough for successful implementation of the *Typology* concerning the Russian cultural capital.

The worldview includes five positions – religion, destiny, orientation in time, wealth and knowledge. Let us consider these categories consistently in relation to Russia.

*Religion.* As for religion, we would not recommend connecting the behavior of Russians with Orthodoxy or with some other belief widespread among certain ethnic groups living in the territory of the country. Instead we can refer to the code of ethics, which was created and became typical for Russians throughout the Soviet regime. According to the *Typology*, the religion ensures the movement of cultural capital to high level if it “fosters rationality and aspiration towards achievements; stimulates material goals; focuses on the real world; pragmatism” (Harrison, 2016, p. 74). As for Marxism, similar to any utopian doctrine, it preaches altruism and self-sacrifice. The aspiration towards material wealth and pragmatism are considered as remnants of “capitalism”. The history of the USSR is rich with campaigns aimed to fight against natural aspiration of people to reach material security. In the 1920s it was the fight against “narrow-mindedness”, in the 1940s and 1950s – fight against “rootless cosmopolitanism”, in the 1980s – fight against “materialism”.

Market reforms made the consumer effect available, and now the aspiration towards “prosperity” is not reprehensible. However, the majority of the Russian households were not rational in the true meaning of this word, i.e. they do not strive for wealth maximization using all possible resources. A Russian family demonstrates persistence in achieving the consumer standard, but, having reached it, it significantly weakens its efforts. Perhaps, this illustrates the negative perception of excessive eagerness on the way towards material welfare typical for the socialist society. It is interesting that the young families seeking for wealth maximization move from remote places to Moscow, to the city which mainly perceived the ideology of personal success and enrichment as the meaning of life of an individual.

*Destiny.* “Belief in the human ability to change the destiny for the better” or, on the contrary, “fatalism, passivity and sorcery”. A popular socialist slogan – “A person is the master of his own destiny” – could deceive nobody. Any personal success in the bureaucratic state is controlled by authorities. The bureaucracy measured the result that could be achieved by an individual. First of all, this includes financial well-being. If, according to authorities, a person became too rich, then most probably he could expect confiscation of his wealth. As for public success, it was not guaranteed to an individual no matter what talents he would have. There are cases when the bureaucracy established “a ban on profession” for famous singers or actors.

Undoubtedly, similar to any utopian society, the USSR was in need of idols – people whose destiny would personify personal success. Such heroes were created following a careful scenario, the candidates

for the role of the best performers were carefully selected and approved by senior authorities. However, the labor records reached by such heroes were often fabricated. By doing so the authorities created an illusion of success achieved due to personal efforts. It shall be noted that in modern Russia the authorities retain control over financial welfare of citizens and over the limits of their personal success. This is mainly caused by the fact that the country failed to embody the principle of equal protection of the law in the country. There are cases when using the far-fetched pretexts, the law-enforcement agencies forced businessmen to repudiate successful business.

Almost a century-long control and intervention of the state into the private life of citizens created disbelief in individual success and extreme passivity in upholding personal interests among the vast majority of the Russian population. The fact that Russians almost do not use such effective tool as political elections to create conditions for personal success may clearly illustrate this.

*Orientation in time.* “Focus on the future contributes to planning, punctuality, postponing satisfaction for the future” or “focus on the present and the past causes neglect to planning, punctuality, savings”.

In one of the early works we noted unusually narrow horizon of planning typical for Russians, which mostly does not go beyond the current period (Bogatyreva & Kolmakov, 2010). It could not have been otherwise in case if the behavior of an individual and key economic variables are under conscious external control. In the market economy based on classical principles, an individual only bears a burden of commercial risk and is subject to fixed tax, which size cannot be randomly changed by authorities. As it was already noted, in the USSR economy the savings of an individual could be confiscated at any time. The transition to market economy was marked by hyperinflation, which destroyed savings made during the USSR period and made senseless the idea of saving in national currency. The devaluation of the ruble permanently threatening the economy of Russia does not promote savings. The unpredictable economic policy presents an equal danger to rational behavior. Let us take for instance continuous tax fluctuations. There are many other examples. In 2015 the Government refused from earlier liability to index pensions to Russians according to inflation rates of the previous year. The indexation made 4% (instead of 13%). At last, in 2018 the pension age of Russians was suddenly increased. The list of examples can be continued.

*Wealth.* “Wealth is a product of human creativity, which can be increased (positive-sum game)” or “wealth is something that already exists (zero-sum game)”.

Static perception of economy in general and wealth in particular is typical for Russians. It is evident not only in the fact that the size of wealth is considered a constant, but also in the fact that Russians deny a possibility of economic utilization of resources. There is an opinion that the wealth cannot be increased by exchange, but only through appropriation of a piece of property. The surrounding economic reality is explained in terms of early mercantilism. For example, higher income per capita in the USA is explained by the fact that “Americans deceive everybody” and “flood the whole world with non-sufficient paper (dollars)”. For example, many people think that the hostile attitude towards Russia from other countries (in the minds of Russians) is explained by the fact that “they need our natural resources”. There is no difference between stock and flows. There is a belief that the officials (oligarchs) created such stock of wealth (“stole”) that it will be enough for himself, his children and grandchildren. A special topic that triggers the minds of Russians of nearly a quarter of the century is the outcomes of privatization. The prevailing opinion is that

during the privatization era a narrow group of persons close to the power appropriated effective industrial giants which were created throughout the generations. People are convinced that the cyclopean enterprises generate profit themselves, automatically. The fact that many currently successful enterprises by the time of privatization found themselves in the ruins and required impressive investments, advanced marketing and logistic policy to make profit again. Hence, low level of income of the general (working) public is explained in terms of operation.

There are three reasons for specific interpretation of creation and distribution of wealth by Russians. First, extreme resource gluttony was one of the distinguishing features of socialist economy. Partly it was caused by the fact that many resources had zero price or price not really different from zero. In combination with “soft budgetary restrictions” it resulted in insatiable demand for resources from manufacturing enterprises. Huge volumes of resources were taken by enterprises in stocks which could stay unutilized for years.

Second, during socialism the achievement of the ultimate goal was considered as extremely valuable most often not from economic but from ideological or political perspective. The problem of economic efficiency lost its value. For example, “collectivization of agriculture” was one of the first large-scale projects of the Bolsheviks. It was launched in the spring of 1929 and was mainly finished by the summer of 1934. Since collectivization was accompanied by rough denial of the private-property rights of the prosperous peasantry, the livestock was sharply reduced. Table 01 illustrates the loss of production resources in the agrarian sector of economy during collectivization.

**Table 01.** Cattle population in the USSR (millions of heads) (Stalin, 1951)

Livestock	Year					1933 to 1929
	1929	1930	1931	1932	1933	
Horses	34.0	30.2	26.2	19.6	16.6	0.488
Cattle	68.1	52.5	47.9	40.7	38.6	0.567
Sheep and goats	147.2	108.8	77.7	52.1	50.6	0.344
Pigs	20.9	13.6	14.4	11.6	12.2	0.584

It shall be noted that at that time livestock was the prevailing element of fixed assets in agriculture, therefore the capital consumption over 4 years of collectivization can be qualified as a disaster. For example, the livestock of horses forming the basis of power supply sources in agriculture was reduced by more than twice. This consumption could not be compensated by tractors and cars, which began to be utilized in the agrarian sector of economy. Almost double reduction of the livestock of cattle and the reduction of the livestock of sheep and goats by 2/3 led to huge decrease of livestock production. The collection of grain was reduced. The loss of labor motivation of farmers was the main consequence of collectivization thus leading to widespread hunger and death of millions of people. Nevertheless, collectivization is still perceived by many as emphatic success since it “allowed creating intensive agriculture”. It is noteworthy that 30 years later the policy of the Soviet collectivization implemented in China almost without any changes thus leading to the death of 30 million people (Lin, 2013). The practice of large-scale projects with doubtful economic results was continued.

At last, we shall remind once again of the practice of state confiscations, which (practice) was carried out throughout the entire all the period of the Soviet Union. The practice of exclusively high prices for

“basic necessities” establishment by economic authorities can be considered a special type of confiscation. We shall not forget absolutely exotic taxes of the USSR period. For example, the tax on childless persons and small-family citizens. All men above 21 years old without children, as well as all women without children had to pay taxes within one year from the moment of their marriage. No medical and social circumstances could serve the basis to cancel the tax.

When methods of compulsory depriving of money and property are applied openly, people may involuntarily develop the opinion on universality of redistributive methods of enrichment.

*Knowledge.* “Practical, verified, facts matter” or “abstract, theoretical, cosmological, non-verified, discussions matter”.

Let us consider only the field of economy to characterize the attitude of Russians to knowledge. Despite exclusive importance of this knowledge for rational decision-making, the vast majority of Russians does not have such knowledge even at least. As for opinions on macroeconomics, in this regard Russians follow a certain mix of proverbs, sayings, rumors and data taken from mass media. In their majority Russians are absolutely helpless at decision-making directly affecting their welfare. For example, they cannot measure the real interest rate. Russian commercial banks and other financial institutions, which credit the compatriots at enormously high interest rates, use this illiteracy to their advantage.

The economic consciousness of Russians has no concept of alternative costs. Since it is not typical for Russian economic behavior to reflect over “how much did we lose having chosen this way”, truly inefficient projects are perceived by the population as successful.

One of the features of Russian economic behavior is that they absolutize some forms of wealth as “self-expanding value”. At first this honorary title of an “asset, which always increases in price” was assigned to MMM shares, then to US dollars, then to gold, then to real estate. Quite recently the aura of an asset continuously increasing in price was around the bitcoin and so on. This feature of Russian behavior leads to weak diversification of their financial portfolios and severe losses of savings in the days of economic tremors.

This and other inanities in economic behavior of Russians are not at all accidental. They reflect the fact that Russians do not consider scientific knowledge (even economic knowledge) a tool, which can be successfully used in real life. It is considered that a mere “common sense” would be enough for this purpose.

## **7. Conclusion**

The main question that we intended to answer was as follows – why the Russian economy failed to ensure its post-socialist transition and gain features of developed market economy? This failure sharply contrasts with that progress in this field achieved by other countries that once rejected the socialist economy. Such countries include Poland, the Czech Republic, Lithuania, Latvia and Estonia. When answering the above question we paid special attention to the state of the Russian cultural capital, to its compliance with the requirements of modern innovative economy. Only one cultural capital component – worldview – was studied. The conclusion is that religious beliefs of the majority of Russians, their attitude to destiny, orientation in time, understanding of wealth and, at last, the value which of knowledge are typical for communities, which adhere to traditional routine way of life. Disbelief in mobility, variability of the world, adoption of destiny determinism, short time horizon of personal planning, perception of wealth as a static



value and undervaluation of knowledge as wealth creation tool – these worldview features may explain their refusal of the full competition in favor of the regulated economy.

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