Conclusion of the Research

According to the research above, age, education and economic surroundings have a significant coherence with the materialist–postmaterialist value orientation, as Ronald INGLEHART and later on Elinor SCARBROUGH have already proved.

It is important to draw attention to the fact that education and age are in a close relationship, since younger generations have much better opportunities to study. That is why the relation between education and value orientation is not unambiguous.

We have not managed to confirm the other two hypotheses. According to our research, it seems that materialist–postmaterialist value orientation has no relationship with gender, nor with the importance of religion within age groups.

It seems to be obvious why gender has no relation with value orientation. The case of religious belief can seem to signify that in fact there is no relationship. But it is more likely that self-classification is not reliable enough, and it would worth measuring it with other, more objective methods.

A third possible solution would be to have smaller groups. Not the most and least religious 25 percent, but maybe 10 percent. They would be a more homogeneous group, but such a sample may be too small in turn.

Since Central European countries constitute an organic political and cultural area not only in times past, but still today, it would be interesting to see the analysis of them as well and compare them with each other.

Is the future of these countries between Western and Eastern, Northern and Southern Europe organic as well? We can certainly answer this question by examining the value orientation in all the countries of our region.

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Kristin Maria NICKEL

Inequality in Transition Economies:

Sharing the Benefits and Burdens of Post-Communist Change

The sudden and dramatic changes in inequality and stratification of societies in post-Soviet transition economies have created serious concerns for the fragile political, economic, and social structures undergoing transformation.[1]

The Challenges of Transition: Recession and Inequality

When the Soviet Union collapsed, entire configurations of institutions that shaped the transition countries were expected to change rapidly. Even though this change was desirable in many regards, much hardship has accompanied the radical transformation.

In economic terms, the process of adjusting to a new structure involved the "twin impact" of significant recession and dramatic increases in income inequality in almost all transition economies.[2]

The stratification of societies in newly-formed democracies and market-based economies has the potential to threaten political stability, create social dissatisfaction with the new system, inspire resistance to essential reforms, and inhibit the functioning of the new economic system.

The establishment of democracy and the collapse of the command economy implied an immediate movement away from

[1] Hereafter, any reference to inequality refers to income inequality, rather than inequality of wealth (which concerns asset distribution) or earnings (which concerns wage distribution).

[2] MILANOVIC Branko, *Income, Inequality, and Poverty During the Transition from Planned to Market Economy*. Washington DC, 1998. 132. For a comparison of the Great Depression and transitional recessions, see *Ibid*, 25–26. According to Gini coefficient measures, inequality is believed to have increased in all post-Soviet transition countries, except the Slovak Republic (*ibid*, 40).

[3] As presented in KORNAI János, *Economics of Shortage*. Amsterdam, 1980. Due to shortages and special privileges to managers and elite, equality did not exist to the extent that the formal system suggested.

the previous system, which had supposed guarantees for employment and certain types of equality.[3]

As the post-Soviet economies began their transition, some increase in inequality was believed to be essential for creating an incentive structure that promotes efficiency in a market-based economy.

While *guarantees* for equality, however, are not compatible with an efficient market-based economy and a democratic society, neither are extreme inequalities, which create a social structure with high degrees of exclusion.

While the transition brought clear benefits in terms of political and civil liberties, uncertainties remain about the economic and social benefits and costs of the shift "from unjust equality to just inequality."[4]

Independent of the actual increases in inequality, the negative perception of unjust increases in inequality has serious consequences for the viability of transition and the improvement of welfare in transition economies.[5]

An Optimal Level of Inequality?

While economists have a general consensus about the benefits of growth in an economy, the consensus about income inequality has been much more elusive. Some degree of income inequality can be understood as an important element for constructing a market-supporting incentive structure.

If the price and quantity demanded of labor is left up to markets, then earnings inequality, induced by the incidence of unemployment and wage differentials, is inevitable. In a competitive labor market, wage differentials should reflect the range of skills, education, and efforts among the labor force, as a return on investments in human capital or as incentives to induce greater effort.

Even if there could be perfectly efficient labor markets, inequality results from natural and social inequalities in talents and unequal distributions of assets. Therefore, the existence of inequality can be seen as a natural and essential characteristic of a market economy.

As can be seen by the prevalence of unemployment and inequality in developed market economies, market forces do not eliminate it; these factors persist and inequality remains.

4 CSEPELI György – ÖRKÉNY Antal, *From Unjust Equality to Just Inequality*. The New Hungarian Quarterly 1992/126. 71.

But the limited efficiency of markets and unrealistic assumptions of perfect markets (such as a labor force that completely responds to labor demand) implies that inequality may exceed the theoretically necessary level for markets to function well.

Transitional unemployment is necessary for movement towards an economy with market-determined wages. Longer-term unemployment represents structural challenges, such as a shortage of labor demand or a mismatch between the skills of labor supply and the labor demand. Assuming complete labor mobility and a supportive institutional framework, over time the market should set appropriate prices for labor.

Although some degree of inequality allows markets to work effectively, a high degree of inequality is also thought to limit growth and development. The structure of a distribution with high inequality often includes a small group of elite and a significant "underclass" that is excluded from full participation in the economy and society.

This type of inequality may restrict growth by preventing a significant portion of the population from active involvement in the formal economy. Even more clearly, it represents a challenge to development in that it implies significant poverty and social exclusion.

By raising the question of "inequality of what?," Amartya SEN argued that access to markets, as well as distribution of opportunities, are more important than the precise distribution of resources.[6]

Although complete equality of income and assets is not feasible in a free-market economy, equality of opportunities is considered an important aspect of a free, democratic society. Therefore, while the literature does not identify an optimal distribution of assets or income (nor a method for securing that distribution), the distribution of opportunities can and should be regulated.

Furthermore, the precise relationships between inequality and other factors, such as growth, efficiency, development, justice, and social welfare, are ambiguous.[7] Consequently, there is no accepted *ideal* level of equality for any economy.

Even in the absence of this ideal level, however, it is possible to argue that there exist levels of inequality that are either too low or too high to be conducive to an efficient market-based economy.

5 ELSTER Jon – OFFE Claus – PREUSS Ulrich, *Institutional Design in Post-communist Societies: Rebuilding the Ship at Sea*. Cambridge, 1998. 61.

6 SEN Amartya,. *Inequality Reexamined*. Oxford, 1992. 12.

Determinants of Inequality in Transition

The increases in inequality have remained and, in some cases, still seem to be increasing; suggesting that changes in the structure of inequality are more persistent than other aspects of transition, such as recession.[8]

Although the depth and length of the recessions varied between economies, the recessions were all *transitional*. Is the new level and structure of inequality inherent in the new system, or also a transitional problem that should be overcome?

Drastic increases in inequality have negative consequences for transition economies in terms of development, social justice, and even the efficiency of market economies. Further, the varied experiences of transition economies indicate that severe recession and dramatic increases in inequality are not the "inevitable fate of transition economies."[9]

Different conditions and approaches during the transition led to a variety of outcomes in terms of the structure of inequality, which leads to the question: what are the determinants of income inequality in transition?

There is a vast amount of literature exploring the factors that affect income inequality in post-Soviet transition economies. Branko MILANOVIC primarily attributes the increase in inequality to changes in the wage distribution associated with the shift from a large state-sector middle class (with relatively equally distributed wages) to more diverse sources of income *and* higher unemployment in the new private sector.[10]

Placing greater emphasis on the non-wage private sector, Francisco FERREIRA provides a theoretical outline of the importance of privatization of assets in determining the distribution of wealth and income through changing ownership of assets, varied returns on those assets, and shocks associated with the income-generating process.[11]

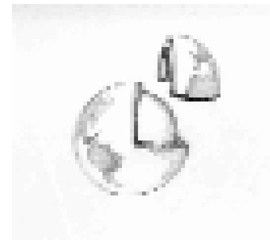
7 Among the multitude of publications on the relationship between inequality and these factors, see EICHER Theo – TURNOVSKY Stephen (eds.), *Inequality and Growth: Theory and Policy Implications*. Cambridge, 2003. BROWN Chris, *Global Inequality and International Social Justice*. In *Sovereignty, Rights and Justice: International Political Theory Today*. Cambridge, 2002.

8 FERREIRA Francisco, *Economic Transition and the Distributions of Income and Wealth*. Washington DC, 1997. 378.

9 GRÜN Carola – KLASEN Stephan, *Growth, Income Distribution and Well-being in Transition Countries*. Economics of Transition 2001/2. 380. This is further demonstrated by the high standard deviation for economic growth and inequality among countries of Central and Eastern Europe and Central Asia in ADAMS Richard, *Economic Growth, Inequality and Poverty: Estimating the Growth Elasticity of Poverty*. World Development 2004/12. 1989–2015.

10 MILANOVIC, 299–341. / 11 FERREIRA, 1–2.

12 AGHION Philippe – COMMANDER Simon, *On the Dynamics of Inequality in Transition*. Economics of Transition 1999/2. 277–278.



Further expanding the list of factors that influence income inequality in transition, Philippe AGHION and Simon COMMANDER also include changes in the level and structure of public spending, tax reform, and trade liberalization.[12]

This set of literature explains the increase in inequality by a series of fundamental changes that occurred in every transition economy. These changes to the structure of the economy mainly represent the anticipated increase in inequality in transition.[13]

The determinants presented above do not explain the wide *diversity* of outcomes when comparing the structure of inequality between different transition economies. The structure and type of inequality varies drastically from one transition country to another, and the situations of transition economies are diverging with time, as shown by MILANOVIC.[14]

Some post-Soviet transition economies now face challenges similar to those of developing countries, while others have entered the European Union (EU). While it may have been more relevant to discuss inequality in transition economies in general in

13 Other literature, which offers explanations for the increase in inequality in transition include: FÖRSTER Michael – TÓTH István, *Poverty, Inequality and Social Policies in the Visegrád Countries*. The Economics of Transition 1997/2. 505–510. CORRICELLI Fabrizio, *Income Distribution and the Dynamics of Reforms*. The Economics of Transition 1997/2. 510–515.

14 MILANOVIC Branko, *Inequality During the Transition: Why Did it Increase?* In HAVRYLYSHYN Oleh – NSOULI Saleh (eds.), *A Decade of Transition: Achievements and Challenges*. Washington DC, 2001. 252–253.

the early '90s, the diversity of the situations of these countries makes this grouping less and less relevant.

In attempting to find the general causes of increases in inequality in transition, there seems to be a large "*unexplained* residual," which suggests the importance of considering "less quantifiable and observable factors—such as access to connections, the impact of corruption, the role of institutions, and the effects of haphazard and often arbitrary reforms."[15]

In particular, the literature has neglected the importance of the quality of the institutional transformation for explaining the changes in inequality in transition. The modern literature in economic development has placed an increased emphasis on the formation of strong market-supporting institutions for growth and development.

While many formal institutions, such as the banking sector, were understood as important for an economy, Douglas NORTH expanded upon this to suggest that both formal and informal institutions (including property rights, rule of law, or transparency) have a strong influence on the efficiency of an economy.[16]

Dani RODRIK outlines which institutions matter for "high-quality growth" (property rights, regulatory institutions, institutions for macroeconomic stabilization, social insurance institutions, and institutions for conflict management) and how to achieve such institutions.[17]

To varying degrees, transition economies are characterized by underdeveloped institutions, as presented by Ole NØRGAARD.[18] As expressed by Oleh HAVRYLYSHYN and Ron VAN ROODEN, however, the role of institutional development is often neglected as an explanatory factor in econometric analysis.[19]

Institutions have a vital role in regulating markets and ensuring equal access to economic opportunities. RODRIK emphasizes the role of institutions for establishing the structure of a market economy, stating that "incentives would not work or would generate perverse results in the absence of adequate institutions."[20]

15 *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia*. Washington DC, 2000. 116, 163.

16 NORTH Douglass, *Institutions, Institutional Change and Economic Performance*. New York, 1990.

17 RODRIK Dani, *Institutions for High-Quality Growth: What They Are and How to Acquire Them*. Studies in International Comparative Development 2000/3. 5–10.

18 NØRGAARD Ole, *Economic Institutions and Democratic Reform: A Comparative Analysis of Post-Communist Countries*. Cheltenham, 2000.

19 HAVRYLYSHYN Oleh – VAN ROODEN Ron, *Institutions Matter in Transition, but So Do Policies.* Comparative Economic Studies 2003/1. 4.

Thus many economists—Hernando DE SOTO in particular—argue that institutions are vital for reducing poverty and inequality by incorporating the poor into the economy and reducing social exclusion.

Given the important role of institutions for enabling economies to function efficiently and enable equal access to markets, the quality of the institutional transformation may have significant explanatory power for understanding the divergent outcomes of inequality in transition countries.

Two Sides of Institutional Transformation

The transition from a command economy and communist political system to a market-based economy and democratic political system involves two sides of institutional transformation: the removal of old institutions and the development of new institutions.[21]

On the one hand, the task is to remove the institutions and centers of power that regulated activities under the Soviet Union, including the central planning agency and state-owned enterprises.

On the other hand, new institutions need to be developed to establish the "rules of the game" under the new system, using Douglass NORTH's understanding of institutions as the "humanly devised constraints that shape human interaction."[22]

The quality of the institutional transformation (both the destruction of old institutions and the development of new ones) may be an essential, although difficult to quantify, factor for explaining the trajectory and outcome of transition, in particular in terms of income inequality.

It seems natural that the process of destruction should be simpler than construction. Hence when institutional transformation is discussed for emerging economies, references are usually made to *building up* new institutions.

For many transition economies, however, Ukraine and Russia in particular, struggles with the destruction of antiquated institutions that remain from the Soviet system caused dramatic increases in inequality and form a significant obstacle for the success of the transition more generally.

These institutions became entrenched, making future reform

20 RODRIK, 4. / 21 NØRGAARD, 22–23. / 22 NORTH, 3.

more difficult. Jon ELSTER, Claus OFFE and Ulrich PREUSS present the "orthodox paradox" of government-orchestrated "marketization" and "destatization" that reduces its own control over the economy.[23]

In transition, the state should support the development of high quality institutions for creating the competitive framework and incentive structure that facilitate a well-functioning, *inclusive* market economy.

Partial Reform Transition Equilibria

Simon KUZNETS proposed the inverted-U hypothesis, claiming that inequality first increases, then decreases with development (measured by an increase in per capita income).[24] This suggests that countries at a middle level of development experience the highest level of inequalities, which should decrease with further growth and development.

Although the severity of the transitional recessions led to a focus on growth and stabilization, rather than equity, Carola GRÜN and Stephan KLASEN, as well as Branko MILANOVIC, find a high correlation between GDP per capita decline and increase in inequality.[25]

This suggests that there is no tradeoff between growth and equality in transition. The right set of conditions, reforms, policies, and institutions may promote *both* growth and equality, while the obstacles to growth may be those that also stratify the distribution of income in a transition economy.

Related to the KUZNETS curve, GRÜN and KLASEN propose an inverted-U relationship between inequality and progress towards a *complete* transition (although neither established this relationship formally or empirically).[26]

This suggests that economies that have accomplished partial reforms will be more vulnerable to high levels of inequality than either economies at the beginning of transition or those that have accomplished the more complex aspects of transition, such as institutional development.

Although many reforms are thought to lead to increased inequality, the situation of incomplete reforms which fail to

23 ELSTER et al., 160.
24 KUZNETS Simon, *Economic Growth and Income Inequality*. American Economic Review 1955/45. 20.
25 GRÜN and KLASEN, 245.
26 Ibid. 380.

solidify these systemic changes with institutional development appears to lead to the most drastic increases in inequality.

Related to the "pitfalls of partial reform" presented by Kevin MURPHY, Andrei SHLEIFER and Robert VISHNY, this understanding of the relationship between inequality and transition emphasizes the possibility for an economy to become trapped in a partial reform equilibrium.[27]

Club Convergence

Related to the trap associated with partial reform, COMMANDER warns that inequality is "already entrenched" in many countries in the former Soviet Union.[28] Economies such as Russia and Ukraine not only experienced the most serious transitional recessions, but also more severe increases in inequality.

Many Central European countries, such as the Czech Republic, Hungary or Poland, experienced less severe recessions and also milder increases in inequality. This indicates a type of "club convergence," where economies gravitate towards a situation with significant recession and high increases in inequality or a situation characterized by less severe conditions in terms of both recession and changes in inequality.

The key to explaining the divergent outcomes in terms of inequality in transition is related to identifying the main factors that distinguish the economies in one club from the economies in the other.

The "club convergence" phenomenon suggests that possible measures of success in transition seem to be highly correlated to one another. In their article investigating the relative importance of policies and institutional development for generating growth in transition economies ("Institutions Matter in Transition, but So Do Policies"), HAVRYLYSHYN and VAN ROODEN conclude that a strong institutional framework contributes to higher growth, but they maintain that policies still hold the most significant explanatory power.

Their conclusion highlights the difficulty of isolating the effects any single aspect of change in the post-Soviet transition. The effects of specific determinants on inequality are difficult to detect in a quantitative analysis given the high degree of

27 MURPHY Kevin – SHLEIFER Andrei – VISHNY Robert, *The Transition to a Market Economy: Pitfalls of Partial Reform*. The Quarterly Journal of Economics 1992. 889.
28 COMMANDER Simon, *The Impact of Transition on Inequality*. Economics of Transition 1997/2. 503.

multicollinearity between possible determinants. Therefore, it is difficult to discuss the determinants of inequality without considering a plethora of factors.

Policies *and the quality of the institutional transformation* are instrumental in determining the trajectory of inequality in transition economies. Although policies and reforms have a clear influence on inequality in transition (which has been emphasized in the literature), the role of institutional development seems to be an essential factor distinguishing the diverging levels of inequality, which has been neglected in the literature on inequality.

The structures and institutions that promote efficiency *and* prevent high levels of inequality must be established to avoid the self-enforcing partial equilibrium, characterized by the entrenchment of inequality.

The importance of a successful institutional transformation is that it breaks down the old system, creating space for the development of a competitive structure that is regulated and inclusive, and therefore more likely to promote equality.

The goal of a dynamic and equitable transition consists of promoting institutions that balance different aspects of transition: deregulation with appropriate re-regulation, social assistance with individual independence, open competition with employment creation, and so on.

The intricate relationships between elements of transition suggest that the same approaches that encourage growth and development may promote equality, but disentangling the precise determinants of income inequality in transition remains beyond grasp.

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Jakub Jerzy MACEWICZ

The Air We Breathe: Capitalism and Mythology

Connecting capitalism with the problem of faith has had a very long tradition. Almost immediately, one thinks of the classic work by Max WEBER, The Protestant Ethic and the Spirit of Capitalism.[1]

However, he is not the only great thinker to have found some deeply rooted connections between the system of beliefs and capitalism. Another good example is Karl MARX with his dialectics. If the whole of ideology is created to explain why some own the means of production and some do not, then religion is also a "product" of the existing economic system.

One also can not forget about Friedrich NIETZSCHE, with his concept of resentiment as an essential part of Christianity—a religion which is supposed to diminish the level of frustration among those who are not the beneficiaries of the economic system.

Yet, the capitalism Karl MARX and Max WEBER were familiar with is completely different from today's postcapitalism. *As a result, the social problems it generates are very much different, and* the system *itself, as well as the people who exist in it, are bound to find different ways of dealing with this.*

I Am What I Do

According to Max WEBER, ascetic Protestantism remained in close relation with capitalism, as well as being the reason for its rapid growth. However, this does not mean that Protestant ethics were actually the same as capitalism; they were only "a speed-up factor."

The key role was played by, according to Max WEBER, inner-

[1] WEBER Max, *The Protestant Ethic and the Spirit of Capitalism*. London – New York, 2002.