

Identity and the Effect of Ideational and Ideological Preferences on Monetary and Macroeconomic Policy: An Examination of the Former Eastern Bloc Countries¹

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Following the fall of communism, many expected that there would be a continuing convergence of economic policies amongst the post-communist Eastern European states (e.g., Hansson and Sachs, 1992). Since then, however, there has been a wide divergence in the economic orientations of the post-communist states, particularly in regards to monetary policy. Nowhere were these variances better illustrated than with the two historic accessions in 2004 and 2007 of large numbers of the post-communist Eastern European states to the European Union (EU).

When examining the monetary policies of the post-communist states of Eastern Europe, four distinct groupings have emerged. The first, represented by Estonia and Czech Republic, has consistently made fundamental macroeconomic reforms to orient their monetary policies closer to Western Europe, which greatly facilitated each ones accession to the EU, and has put both on track to eventually meet EMU requirements. Relative to other post-communist states, Estonia and Czech Republic have been on the leading edge in terms of enhancing central bank independence, lowering inflation, and reducing government deficits.

A second group, represented by Romania, which was initially slow in instituting macroeconomic reforms, has more recently increased its rate of monetary policy adjustments to gradually align its policy closer to European standards. While these monetary reforms assisted Romania in eventually gaining accession to the EU in 2006, the Romanians still lag far behind. This is because Romanians have made less progress in ensuring the independence of the central bank, had difficulty in lowering inflation, and problems decreasing government budget deficits.

The third group, represented by Ukraine sits on the fringe and has made neither consistent macroeconomic and monetary choices, nor a clear decision whether to align economic relations towards Russia or Europe. As a result of minimal monetary reform on the part of the Ukraine, the chances of meeting the minimum requirements for accession are distant, as central bank independence remains dubious, inflationary pressures remain, and government deficits continue to persist. Finally, there is a group, represented by Belarus, where macroeconomic reforms have been virtually nonexistent, and economic relations have clearly been oriented towards Russia. In Belarus, monetary policy has continued to remain stuck in Soviet era methods, as the government controls most aspects of the economy, the central bank lacks independence, government deficits persist, and inflation is a continuing problem.

The purpose of my study is to analyze identity politics in the post-communist world, and highlight the importance of country specific characteristics, such as culture and historical memory and historical legacies, in accounting for how identity affects these countries' continuing preferences for divergent economic ideas and ideologies. This is important to show that political considerations relating to identity have directly shaped monetary transitions, and positioned some post-communist states to successfully accede to the EU, while limiting the others prospects to

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meaningfully transition at all. Specifically, my main hypothesis is that the differences found amongst the new EU member states and non-member states from post-communist Eastern Europe, in regards to the diversity of macroeconomic policy practices, has to do with each states' identity which directly shapes each ones ideas and ideological preferences relating to the political economy. To test this, I will examine the factors that help to explain differences in national identities, which result from differing and divergent historical legacies in each of these states relating to political structures, economic influences, ethnicity, culture, language, and religion.

The first group, Estonia and Czech Republic, were well developed liberal capitalist economies connected to Western Europe politically, economically, culturally, and religiously before communism. Because these countries' economies largely suffered and stagnated under communism, non-liberal ideas in regards to monetary planning have been thoroughly discredited. In combination with historic Western liberal economic, political, and cultural traditions in both, this has helped lead to the wide acceptance in Estonian and Czech Republic for liberal economic ideologies relating to monetary policy, significant macroeconomic reforms, and orientation of both states towards the EU.

In regards to the middle group of Romania and Ukraine, preferences for new and old economic ideas and ideologies are the most contested, due to fluctuating and split identities, as well as mixed experiences under communism, which has led to the most incoherent types and orientations of monetary policy seen amongst the various groups of states. Both Romania and Ukraine have political, economic, cultural and religious connections to both Western Europe and also to the Orthodox East. Therefore, as a result of their respective fluctuating and split identities, there has been great difficulty in each in building a workable consensus over issues of policy reforms. Of the two, it will be argued that Romania has an identity that is in flux rather than split, which has thus enabled it to move further ahead to eventually gain accession to the EU.

In Belarus, I will argue that the popularity of old economic ideas and ideologies about monetary planning have persisted because the former policy methods have not yet been widely discredited amongst broad segments of the population or amongst elite policy makers. Belarusian identity has significant historical, political, economic, cultural, linguistic, and religious connections with Russia, and does not have firmly rooted Western liberal traditions. Also Belarus was largely underdeveloped and agricultural prior to becoming communist. As a result, they experienced much of their significant economic development and welfare growth under communism, which in turn has helped maintain significant support for ideational and ideological preferences in support of command-style economic planning.

Estonia: Consistent Monetary and Macroeconomic Policy

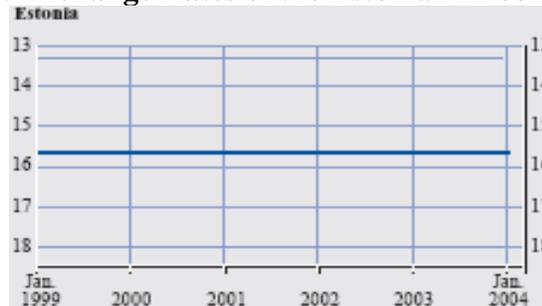
Following the breakup of the Soviet Union, Estonia has largely been successful since then in achieving strong economic growth, as compared to the other post-communist states. This was illustrated recently in the *Economist*, where it was reported that Estonia was outpacing the other post-communist states in terms of economic growth, with GDP growth sitting at 12% (2006).

The central reason for the economic success of Estonia since 1991 has been because the Estonians have consistently made fundamental macroeconomic reforms to comprehensively change their economies structure and orientation. This has particularly been apparent in regards to Estonian monetary policies which have increasingly moved closer to Western Europe standards, and greatly facilitated Estonia's accession to the EU. Relative to other post-communist states, Estonia has been on the leading edge in terms of enhancing central bank independence, lowering inflation to ensure price stability, reducing government deficits and debts, and stabilizing currency

exchange rates. The primary driver of these reforms has been the strong and cohesive Westernized identity of Estonia, which has caused there to be vast agreement amongst the majority of Estonian citizens' that these policies were necessary in order to help ensure the security from Russia, and because the old policy ideas were highly disfavoured. Estonia was a well developed liberal capitalist economy, connected to Western Europe politically, economically, culturally, and religiously before communism. Because Estonia suffered politically and culturally and stagnated economically under communism, non-liberal ideas in regards to macroeconomic and monetary planning have been thoroughly discredited. In combination with historic Western liberal economic, political, and cultural traditions that are strongly rooted in Estonia, this has helped lead to the wide acceptance in Estonian for liberal economic ideologies relating to economic planning, significant monetary and macroeconomic reforms, and the orientation towards the EU.

In terms of increasing monetary stability, Estonia took the lead and has been one of the most successful amongst the post-communist states. One of the first policy steps initiated by Estonia, in this regard, was to create its own independent currency, the Kroon, in 1992, which was pegged to the German Dmark, and now the Euro, and which was backed in full by Estonia's gold and foreign currency reserves.² What is important here is that this had highly symbolic value in sending the message that Estonia was actively seeking to break away from Russia's economic and political orbit. This is because national currency is "a potent symbol of national identity...a potentially powerful source of revenue to underwrite public expenditure...a possible instrument to manage macroeconomic performance...and a practical means to insulate the nation from foreign influence or constraint" (Cohen 1998: 2-6; see also Hoag and Kasoff, 1999: 921). In creating its own currency, Estonia also importantly established an independent Central Bank and currency board, which is in charge of maintaining and backing the stability of the Kroon. Thus far the Estonian currency board has been quite successful in maintaining the stability of the Kroon (see Figure 1).

Figure 1: Exchange Rates of the Estonian Kroon per Euro



Source: European Central Bank, 2000: 16.

An important factor contributing to the maintenance of exchange rate stability is because Estonia's central bank enjoys a high degree of independence from the government, and is free from potentially harmful political interference.³ This is because there are strong legal restrictions in place which prohibit the Estonian central bank from lending to the government to cover fiscal shortfalls. In general, the political freedom that has been granted to central bank authorities, has allowed Estonia to be highly successful in running a tight monetary policy to combat inflation. This fact has been lauded regularly by the EU and other international bodies (EU, 1998: 27, 2003: 32; OECD, 2000: 58).

² Estonia was greatly assisted by the fact that it was able to retrieve its gold and foreign currency reserves that it had transferred to Switzerland and Sweden prior to being taken over by the Soviet Union in 1940 (OECD, 2000: 60).

³ Political Freedom from the government is stated in the Law on the Bank of Estonia (1993)

Overall, the central banks monetary policy of curbing inflation and promoting price stability has been quite successful. From examining the evidence from Estonia, while inflation initially rose to 954 percent in 1992,⁴ it has decreased steadily annually in the years since, reaching single digit levels by 1998, and now currently stands in the 3-4 percent range (see Table 1). As Feldman and Sally argue these monetary initiatives were extremely important because “the currency reform took Estonia out of the increasingly volatile ruble zone, introduced hard budget constraints, was crucial for the speedy restoration of macroeconomic stability, and injected a strong dose of credibility into the wider reform programme.” (Feldman and Sally, 2002: 82)

Table 1

Estonia: Annual Inflation Rates (in per cent)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
29.0	23.1	11.2	8.1	3.3	4.0	5.8	3.6	1.3	3.0	4.1	4.4	4.2

Source: EBRD (2007: 65)

Estonia has also implemented other important policies that have greatly complement Estonia’s monetary goals of increasing macroeconomic stability. For instance, the Estonian government has instituted policies that have striven to increase fiscal stability. This has been facilitated by adoption of laws in Estonia, such as the Law on the Bank of Estonia (1993), which restricts the ability of the Estonian government to run large deficits. In addition to the fact that the Estonian central bank is highly independent, this has resulted in the fiscal situation in Estonia being brought under control. In terms of providing fiscal stability and keeping government debt at a minimum, Estonia has been in the lead compared to other post-communist states (see Table(s) 2 and 3). For example, since 2001, the Estonian government has ran continuous budget surplus’s, with government debt being minimal, standing at 4.1percent of GDP in 2006.

Table 2

Estonia: Annual Budget Balances (in per cent of GDP)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-1.2	-1.5	1.9	-0.3	-3.7	-0.6	0.3	0.4	2.0	2.3	2.3	3.8	3.8

Source: EBRD (2007: 66)

Table 3

Estonia: Government Debt (in per cent of GDP)						
2001	2002	2003	2004	2005	2006	2007
4.7	5.8	6.0	5.5	4.8	4.1	na

Source: EBRD (2007: 21)

Estonia has also complemented its policies of increasing monetary stability and fiscal consolidation by implementing deep structural reform, in the form of privatizations. It is apparent that Estonia’s privatization efforts since the early 1990s have proceeded in a quick manner. From early on, Estonia was quite successful in privatizing the vast majority of its former state run industries. In its privatization efforts, Estonia importantly set up key institutions and laws in 1992 to help make this process more effective, such as the Estonian Privatization Agency, and also a working Bankruptcy Law. This greatly helped assist in the process of privatization, so that by 1995, 50 percent of state owned enterprises had been privatized, rising to 80 percent by 2000 (Gillies et al, 2002: 180-181; see also EU, 1998). By implementing vast privatization and selling of old Soviet era state industries, Estonia removed the possibility that these enterprises would still receive subsidizations and removed a major hindrance to monetary and fiscal discipline that has

⁴ (OECD, 2000: 34).

been found in post-communist Romania, and Ukraine. Finally, Estonia also avoided similar problems that the Czech's faced in the late 1990s, by privatizing Estonian commercial banks early on, and by letting collapsing banks go under (EU, 1998: 18).

Estonia: Strong Westernized Identity

Estonia's identity is quite intense, and can safely be described as being Western European in preference and orientation. This is a prime factor for explaining why consecutive Estonian governments, with the broad support of most Estonians have consistently adopted macroeconomic policy that was liberal, pro-reform, and pro-European in nature, and also why there is widespread disfavour amongst Estonians for the economic and political ideas of the communist era. This is because Estonia was a well developed liberal capitalist economy connected to Western Europe politically, economically, culturally, and religiously before communism.

Although Estonia had been part of the Russian Empire for years, however, very little Russian influence in terms of traditions and values relating politics, economics, culture and religion was actually infused on Estonian identity. This is because the Estonians had long historic contacts with Germanic and Scandinavian people. In fact, a sizeable concentration of Germans nobility and merchants had settled in Estonia for over six centuries before they were expelled before the Second World War. It was from the Baltic Germans that the Estonians received most of their Western cultural influences from (Raun, 1997: 406; Prazaukas, 1994: 161). Culturally and religiously the Germanic influences helped infuse Western Christian values, and also after in the sixteenth century the message of the Protestant Reformation and Lutheranism, to which the vast majority of Estonians converted. The German nobility also used their capital resources to establish cultural institutions and centres of higher learning, which Estonian intellectuals used to great advantage to promote Estonian culture and language (Raun, 2001: 56). As a result, this did not mean that the Estonians were becoming Germanized.

By the nineteenth century a sizeable local Estonian intellectual elite and middle class was beginning to develop. Culturally the Estonians made advancements in high culture, literature, and education during this time.⁵ After the mid nineteenth century, there was the large growth of Estonian civil society organizations. Economically, by the late nineteenth century, with the assistance of German capital, Estonia was beginning to become more developed and industrialized (OECD, 2000: 26; Raun, 2001: 70-71.). Additionally, during this time, a large independent Estonian middle class had developed, which espoused a Western liberal entrepreneurial spirit. As Clemens argues, Estonians “seemed to embody the protestant work ethic” (Clemens, 1994: 190).

These historical influences were crucial in defining Estonian national identity, which had become very strong near the end of the Russian Empire. Consequently, negative attitudes began to solidify towards the Russians from the late nineteenth century when Tsarist authorities tried to institute policies of Russification, similar to those that were going on in other parts of the Russian Empire at the time, and this antipathy towards Russia continued to simmer until 1917 (Raun, 2001: 59). In 1918, the people of Estonia declared their independence from Russia and the newly formed Soviet government.⁶ During Estonia's interwar independence, which lasted from 1918-1940, national identity solidified even further, and large achievements were made by Estonia in terms of cultural and educational advancements (Raun, 1997: 408-410). This first period independent

⁵ For example, Raun notes that by 1881, 95 percent of Estonians 14 and older could read (1997: 407).

⁶ Here it is important to note that that Bolshevik communism never had strong roots of support in Estonia (Raun, 2001: 111).

statehood, where Estonia had full sovereign control of its politics, economy, culture, and education was remembered with great nostalgia by Estonians.

Estonian fortunes took a turn for the worse in 1940, when the Estonia was forcefully annexed by the Soviet Union, as a result of concessions granted to Moscow in the Molotov-Ribbentrop Pact. From the outset, the Soviet's used heavy handed policies towards the Estonians, in the form of deportations, killings, political and cultural repression and forced collectivization (Savchenko, 2000: 90). This led to significant numbers of Estonians viewing the Germans as liberators in 1941. Overall, during the Second World War a significant number of Estonian nationals fought with German forces or Finnish forces in the north against the Soviets, largely in order to defend the Estonian homeland.⁷ Moreover, this resistance continued long after the Germans had retreated, because Estonian partisans continued to fight a guerilla war against Soviet occupation. This guerilla war, conducted by the “forest brethren” of Estonia continued to last, against great odds, until the mid-1950s.⁸ Consequently, the Estonians have a far different historical interpretation of the Second World War, and have never viewed kindly the official Soviet and Russian historical version that the Soviets “liberated” Estonia.⁹ These differing historical interpretations were witnessed with the recent diplomatic row between Tallinn and Moscow over the Estonian government's decision to remove a Soviet era war memorial in the centre of Tallinn (see for example, Lobjakas, 2007; Asantiani, 2007).

The memory of the Russian domination, which lasted for close to fifty years, has deeply influenced the identity of the Estonian people, which in turn has helped directly shape most Estonian actions since regaining independence in 1991. Under Stalin's guidance, Soviet rule was quite brutal. Demographically this had a great toll on the population of Estonia, because many people were executed or sent to prison camps, because they were deemed to be nationalists.¹⁰ Moreover, throughout the Soviet period, the communists also attempted to change the demographic situation in Estonia by promoting the immigration of large numbers of Russian settlers. In Estonia, the large scale Russian immigration almost succeeded in making Estonians a minority in their own homeland, so that by 1989 Estonian's only made up 61.5 percent of the population (Raun, 1997: 405). In addition, the people of Estonia were forced to learn the Russian language in school, and use it in places of work. Like the other Soviet Republics, the communist government was trying to Russify the population. Overall the Stalinist policies of the Soviets sought to tear away the fabric of Estonian identity, by introducing a foreign political and economic system that was antithetical to Estonia's traditional core ideas and ideologies. Put in more blunt terms, some have argued that “the savagery of the regime, the large-scale shootings and deportations, the large-scale immigration of Slavic settlers into Estonia, and the systematic persecution of the Baltic language could lead to a plausible charge of both physical and cultural genocide” (Bilinsky, 1999: 9).

⁷ Raun puts the number of those joining Finnish forces at 5000, and those joining German forces at 50,000-60,000. while it is true that the Soviets conscripted around 33,000, much of this was facilitated through force, and many deserted to the Germans “after they had left Estonian Soil and no longer feared reprisals against their relatives” (2001: 157-159).

⁸ Estimates put Estonian Guerilla resistance against the Soviets throughout this time in the range of between 15,000 to 40,000 (Laar, 1992, 155; Raun, 1997: 411).

⁹ Western governments, including the United States and Britain never recognized the illegal Soviet takeover of Estonia or the other Baltic states of Latvia and Lithuania.

¹⁰ For instance, in 1945, Estonia's made up 94 percent of the population, and by 1950 the proportion of Estonians was reduced to 76 percent (Taagepera, 1981: 47).

This pronounced change in demographics in Estonia, and Soviet attempts to Russify the population have had a great effect on Estonian identity, and assisted in the development of the belief that Russia is Estonia's "other." As a result, Estonian identity would tend to see Russia as the biggest threat to the Estonian nation. This has led the Estonian government to develop much tougher citizenship laws, because of their perceived insecurity, which made it hard for the minority Russians and other ethnic groups to gain citizenship. The Estonian citizenship policies were driven by a "fear that the large Russian minorities would prove to be a Trojan horse in their vulnerable Baltic homeland," (Nørgaard et al, 1999: 184; Pettai, 2001: 118-120, 2001a: 264-265). Initially, Estonia's citizenship laws have excluded most who were not ethnic Estonians, because of the pre-1940 rule, which denied automatic citizenship to those who immigrated to Estonia after the Soviet takeover, and language and naturalization requirements.¹¹

These laws have had significant consequences influencing the shape and transformation of post-communist Estonia's political economy. This is because most Russian settlers that came after 1945 did not qualify for automatic citizenship, which meant they were not allowed to vote or hold state jobs in the Estonian public service.¹² As a result, this has meant that Estonian politics, in the highly formative years after regaining independence, has been dominated primarily by Estonians. Since many of the ethnic Russian settlers living in Estonia, had in large numbers played a large role in administering the Soviet economic command structure (Smith, 2002: 117), the citizenship policy acted in a very similar way to the Czech lustrations laws. This is because it helped to exclude those who would be most likely to object to the Estonian's preference for extensive liberal macroeconomic and monetary reform, since many of the Russian settlers' attitudes were highly Sovietized.¹³ Consequently, because Estonia's are in firm control their political destiny, this has allowed Estonia identity and its inherent pro-European and liberal ideational and ideological preferences to shine through in regards to macroeconomic and monetary policy.

As mentioned earlier, Estonia's economy largely suffered and stagnated under communism, which helped to further discredit non-liberal ideas in regards to monetary and macroeconomic planning. This resulted from years of mismanagement under Soviet rule, where the economy of the Estonia faced growing instability and stagnation, due to high inefficiency, increasing inflation, and poor trade links. Moreover, "unlike the other Soviet republics, the Estonia did not experience tangible benefits from the Soviet-style industrialization" (Savchenko, 2000: 22). As a result, Smith argues that there was thus an "outright rejection of Soviet communism amongst the Estonian population," which "brought a heightened receptiveness to radical reform" (Smith, 2002: 117).

Moreover, the perception in Estonian identity of Russia as a mortal threat to the Estonian nation is central in explaining the cohesion and consistency of the decisions made in Estonia to make comprehensive economic reforms to reorient and return to Europe. In Estonia, the "perceived

¹¹ While some might view Estonia's citizenship laws as negative example of exuberant nationalism reasserting itself, it should be pointed out that the "regulations on naturalization were exceptionally liberal" (Andersen, 1999: 209). Moreover, Pettai argues that Estonia's citizenship laws "also had a legitimate basis in international law, given the illegality of the Soviet occupation" (2001: 119).

¹² In regards to the public service this allowed for the Estonians to more effectively make bureaucratic personnel changes, to weed out the old communist guard from important positions of influence, in order to build a more effective and fresh administration. For instance "in Estonia the central administration was largely replaced early on by younger people" (Panagiotou, 2001: 273).

¹³ For example see Estonian Defence Minister Jaak Aaviksoo comments to Radio Free Europe/Radio Liberty on May 9, 2007.

urgency of national survival and the reversal of Russification” (Feldmann, 2001: 550) led to greater citizen acceptance of these extensive economic reforms. Moreover, as former Governor, Vahur Kraft, of the Estonian central bank has stated the main idea of reform was “the break the shackles of the Soviet command economy” (2000). Here, Estonia sees incorporation into the EU and EMU as the best way to preserve their freedom, and prevent them from falling under Russian domination again, as membership will fully solidify Estonia’s links with Western Europe.

To conclude, the Estonians have consistently made fundamental macroeconomic reforms to comprehensively change their economies structure and orientation. This has particularly been apparent for Estonian monetary policy which has increasingly moved towards EU standards. Relative to other post-communist states, Estonia has been on the leading edge in terms of enhancing central bank independence, lowering inflation, reducing government deficits and debts, and stabilizing currency exchange rates. The primary driver of these reforms has been the strong and cohesive Westernized identity of Estonia, which has caused there to be vast agreement amongst the most Estonians that these policies were necessary in order to help ensure the security from Russia, and to break with the ideas of communism which were highly disfavoured. This has been greatly facilitated by the fact that Estonia was a well developed liberal capitalist economy, connected to Western Europe politically, economically, culturally, and religiously before communism. In combination with historic Western liberal economic, political, and cultural traditions in that are strongly rooted in Estonia, this has helped lead to the wide acceptance in Estonian for liberal economic policies relating to macroeconomic planning.

Czech Republic: Consistent Monetary and Macroeconomic Policy

Since the Velvet Revolution in 1989, and then the Velvet Divorce in 1993, the Czech Republic has been a leader amongst the post-communist states of Eastern Europe in terms of consistently and coherently making comprehensive macroeconomic and monetary reforms. Such key policy reforms have included enhancing central bank independence, lowering inflation, and reducing government budget deficits and debts. As a result, this has greatly facilitated the Czech Republic’s accession to the EU in 2004, and put it on track to eventually meet the requirements of EMU membership.

The primary reason for the success of the Czech’s has been because of the strongly Westernized identity of the Czech Republic. Czech identity is highly Westernized because the Czech’s have historically deep-rooted connections to Western Europe politically, economically, culturally, and religiously. Moreover, before communism was imposed on the Czech’s, the Czech part of Czechoslovakia was a well developed industrialized liberal capitalist economy. Since the Czech economy largely suffered and stagnated in the long-run under communism, non-liberal ideas in regards to monetary planning were thoroughly discredited. In combination with the historic Western liberal economic, political, and cultural traditions that were already well established in the Czech Republic, this has helped lead to the wide re-acceptance amongst Czech’s for liberal economic ideological preferences, which has facilitated significant macroeconomic and monetary reforms.

From the beginning, consecutive Czech governments, first starting under the leadership of Prime Minister Vaclav Klaus, from 1993-1997, have consistently followed through on implementing key macroeconomic reforms which have greatly assisted in the goals of monetary consolidation. The Czech government under Klaus had the goal of returning the Czech Republic back to Europe, and doing so by tearing down the old communist command structures to retransform the country back into the prosperous market economy that it had been prior to

communism (Appel and Gould, 2000: 123). The reforms implemented by the Klaus government were so swift that by 1997 the European Union was already reporting that the Czech Republic had transitioned so far that it could already be described as a “functioning market economy” (EU, 1997: 33).

One of the most important steps taken in assisting the general macroeconomic reform to the whole economy was that the Czech government had given a significant amount of monetary policy independence to the central bank. As a result this allowed the Czech National Bank (CNB), to run a tight monetary policy to maintain exchange rate stability establish price stability and to keep inflation at a minimum (see Table 4).¹⁴

Table 4

Czech Republic: Annual Inflation Rates (in per cent)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
9.6	8.9	8.4	10.6	2.1	4.0	4.7	1.8	0.2	2.8	1.8	2.5	2.8
Source: EBRD (2007: 65)												

In addition, the CNB was not allowed to lend to the government to cover fiscal shortfalls, which was significant in promoting tight fiscal consolidation on the part of the Czech government, particularly after 1995 (see Table 5). Other important complementary programs that the Klaus government instituted, during this time, was significant structural reforms in the form of mass privatizations, so that by 1996, most of the state owned enterprises had been privatized (EU: 1997). These actions greatly assisted in efforts to consolidate fiscal spending and reduce deficits, as the government would no longer have to subsidize these inefficient enterprises, something that has remained an irritating problem and inhibitor to transition in Romania and Ukraine.

Table 5

Czech Republic: Annual Budget Balances (in per cent of GDP)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-15.0	-4.9	-2.4	-4.2	-1.4	-3.8	-5.8	-6.8	-6.6	-2.9	-3.6	-3.5	-4.0
Source: EBRD (2007: 66)												

Even after Klaus’s centre-right government was replaced in 1998 by the Czech Social Democratic Party (CSSD), the Social Democrats continued on with the macroeconomic reforms. One weakness in the privatization process that occurred prior to 1998 was that commercial banks remained largely un-privatized. As result, because the state still controlled the commercial banks, these banks were still pressured by the government to make loans to newly privatized enterprises that need infusions of capital (Hazlett, 1998: 45; Kutan and Brada, 2000: 33; Woolman, 2002: 192). This had a negative affect on central bank and indirectly undermined the CNB’s tight monetary policy program. As a result, by 1998, the EU was reporting that the lack of structural reform, in the form of privatizing commercial banks, was one of the main weaknesses of the Czech economy (EU, 1998: 17). This problem was rectified after 1998 when the CSSD privatized the remainder of the state-owned commercial banks.

This action by the CSSD, significantly facilitated the CNB’s ability to further tighten monetary policy, which enhanced macroeconomic stability during this time. From 1999 onwards, inflation was successfully brought down to single digit levels (see Table 4). Thus, in terms of inflationary targets, the Czech Republic was able to be brought pretty much into line with the

¹⁴ In the years from 1990 to 1994 the annual inflation rates were 9.7 percent, 56.5 percent, 11.1 percent, 20.8 percent, and 10.1 percent, respectfully (EU, 1997: 120). The rise to 20.8 percent probably resulted from the initial breakup of Czechoslovakia.

requirements of the EMU. The only weak spot that has been reported is in regards to fiscal consolidation, as budget deficits and debt of the Czech government have slowly and steadily crept upwards since 1998 (see Table(s) 5 and 6). Currently, this stands as the Czech Republic's main weakness in terms of meeting EMU acquis requirements (EU, 2003: 7; see also OECD, 2004: 87-91, 2006: 20). However, relative to the other countries compared here, with the exception of Estonia, the Czech's have been quite successful in enhancing fiscal discipline since the fall of communism.

Table 6

Czech Republic: Government Debt (in per cent of GDP)						
2001	2002	2003	2004	2005	2006	2007
25.9	28.5	30.1	30.7	30.4	30.6	na

Source: EBRD (2007: 19)

Most importantly, there has been wide consensus in the Czech Republic, amongst political elites of the centre-right and centre-left,¹⁵ and also broad segments of the population, for the necessity of making such large macroeconomic and monetary reforms to strengthen its market transition and reintegration back into Europe (Appel, 2004: 7-8; Vachudová, 2001: 360). Therefore, it seems reasonable to argue that the Czech Republic's Westernized identity and its predominant ideas and ideological preferences relating to the political economy have been a great influence in helping to drive the macroeconomic and monetary reforms that have transformed the Czech economy.

Czech Republic: Strong Westernized Identity

The Czech's strongly Westernized identity is a primary factor for explaining the relatively large disfavour for the economic and political ideologies from the communist era. Czech identity has been directly shaped by the historical legacy of the political and economic development of the areas that now make up the Czech Republic. Culturally, because Czech's were members of Western Christianity they were exposed widely to both the ideas of the Reformation and Enlightenment. Moreover, as a result of years of being ruled under the Austro-Hungarian Empire, Czech identity has been clearly infused with Western liberal political and economic traditions. For the Czech's, the Austrians granted them increased economic and political freedoms, so that by the mid-nineteenth century, Czech national identity had begun to solidify and make great advancements in high culture, literature, and higher education (Agnew, 2004: 143; Leff, 1988, 17). Politically, this was seen with the transfusion of Western liberal, democratic, pluralistic values, the growth of civil society and political parties, and experience with representative government (Broderick, 2000: 72). Economically, by the late nineteenth century, the Czech lands were becoming the industrial heartland of the Austro-Hungarian Empire. Additionally, during this time, a large independent Czech middle class had developed, which espoused a Western liberal entrepreneurial spirit (Agnew, 2004: 141).

As a result of these developments, by the time the Czech's gained independence from Vienna following the First World War, the Czechs had become accustomed to having significant political freedoms, and had grown used to a very high standard of living, as its industrial development was equivalent with Germany and Austria (Appel and Gould, 2000: 120). Also

¹⁵ The Czech Social Democrats are representative of Western European standards. This is because the CSSD is firmly committed to a market-oriented approach to economic policy" (OECD, 2006: 15).

important to note, is that during the interwar period, the Czech's remained one of the only stable parliamentary democracies up until 1938.

The communists in Czechoslovakia did initially have some significant support from Czech's, because of the Czech communist partisan activities (Agnew, 2004: 215). In addition, the Soviets were also seen as liberators and initially welcomed, largely because of the repression under German occupation, which fomented a great of antipathy towards Germans by Czechs. However, as time wore on this support eventually wore thin and began to sour, as the communists began to consolidate power. By 1948, all hope that political freedoms would persist in post-war Czechoslovakia were dashed as the communists, aided by their Soviet allies, used of a great number of purges, terror, political repression, and forced collectivization to facilitates a full communist takeover (Korbel, 1977: Wolchik, 1991: 22).

Economically, under the Stalinist command economy that was imposed, the Czech's, economic growth began to lag behind their Western neighbours. Consequently, by the 1960s, significant welfare losses and declining standards of living were beginning to be experienced by average Czech's (Agnew, 2004: 248-249: Appel and Gould, 2000: 120). Similar to the Estonian's, the Czech's did not benefit in any material way under communist rule. By the 1960s this led to growing dissidence and calls for reform, which climaxed in the Prague Spring of 1968, when Czech reformer Alexander Dubček tried to “put a human face on socialism.” However, once freedoms began to be granted, civil society and independent media began to come to life again, and it began to appear that the momentum of reform would continue rolling along (Agnew, 2004: 255; Wolchik, 1991: 31). This worried many of the other hard-line communist governments in neighbouring Eastern Bloc countries, and led to the eventual invasion of Czechoslovakia, by over half a million soldiers from the Soviet Union and its Warsaw Pact allies to crush Prague's nascent reform efforts and reinstall Czech hardliners (Dawisha, 1984: 319-320).

This event was the touchstone that soured the Czech's popular attitudes towards communism. Following the purges and political repression that was unleashed during the “normalization” period where hard-line communism was re-imposed by leader Victor Husak, many Czech's began to despise the communist elite, and its dreaded secret police (Agnew, 2004: 269-273). Moreover, to add insult to injury, under the continued communist command economy, the Czech economy continued to stagnate, decline in productivity, and see further welfare losses relative to Western Europe. By 1989 the Czech's had had enough. Because Czech dissidents continued to be active, at great risk to themselves, from the late 1970s onwards, the Czechs were able to replace the old communist political leaders whole sale, with legitimate anti-communist liberal-leaning political leaders, such as Vaclav Havel and Vaclav Klaus, who wanted to make a clear break from the past and return the Czech's back to Europe. These anti-communist politicians enjoyed wide public support, which was heightened by the extensive anti-communist sentiment that had begun to become pervasive in Czech society (Appel and Gould, 2000).

Many Czech politicians and citizens in post-communist Czech Republic saw rapid transformation and European integration as the best way to ensure Czech freedom, and also in order to make a clear break from communism. One of the most salient aspects of this anti-communist attitude, which could be expressed as a general loathing for the old communist regime and those associated with it, was witnessed in the Czech Lustration “purification” Laws, passed in October 1991, which effectively banned all former high ranking communist officials, politicians, administrators, managers, and those connected to the secret police from holding office, administrative positions, or management positions in state enterprises. The Lustration laws was quite successful in that they served to effectively marginalize former communist technocrats,

managers, and political figures from the Czech political economy after 1991 (Appel and Gould, 2000; Kraus, 2003: 51-52). Thus, it could be argued that this act greatly facilitated the Czech's ability to rapidly restructure the economy, because this effectively eliminated the prospect that these reforms would be thwarted by internal sabotage. This has been an apparent problem in the experience of other post-communist states where former communists have held on to positions of power, such as Romania and Ukraine. Moreover, it could also be argued that the Lustration laws were reflective of the Czech public's broad identity, and its ideas and ideologies relating to economic planning and government, (Appel and Gould, 2000: 121). In 2000, the Lustration laws were upheld and renewed indefinitely by the Czech government, which at the time was under the Social Democrats.

To conclude, the Czech Republic has been a leader amongst the post-communist states of Eastern Europe in terms of consistently and coherently making comprehensive macroeconomic and monetary reforms. The primary reason for the success of the Czech's has been because of the strongly Westernized identity of the Czech Republic. Moreover, since the Czech economy largely suffered and stagnated in the long-run under communism, non-liberal ideas in regards to monetary planning were thoroughly discredited. Consequently, this has helped lead to the wide re-acceptance amongst Czech's for Western liberal economic ideological preferences, which has facilitated significant macroeconomic and monetary reforms.

While the Czech government does still face challenges, it can now be argued that the Czech Republic is now transitioned, and is beginning to face many of the same challenges of other EU members. Unlike, Romania, where reforms lag behind, Czech identity is clearly European, which is characterized by a predominant adherence to western liberal ideational and ideological preferences relating politics and economics. Also important is the fact that the Czech Social Democrats are representative of Western European standards, the old communist nomenclatura has been marginalized, the media is free, the economy is now up to market standards, and the rule of law and constitutionality are respected.

Belarus: Consistent Neo-Soviet Monetary and Macroeconomic Policy

Belarus has followed a relatively consistent and clear pattern of behavior in regards to monetary policy and macroeconomic matters, which could be described as being anti-liberal, anti-reform, and pro-Russian in orientation. In general, the Belarusian government controls virtually all aspects of the political economy, and macroeconomic and monetary reform has been virtually non-existent. Consequently, Belarusian macroeconomic and monetary policy has continued to remain stuck in Soviet era methods, which tend to be illiberal, authoritarian, arbitrary, and generally lacking in respect of the rule of law. In policy terms, this has meant that in Belarus prices remain fixed, the central bank lacks independence from political interference, government deficits and debts persist, and inflation is a continuing problem.

The primary factor explaining Belarus's retention of Soviet era methods is the strong and cohesive Belarusian identity, which is highly Russified and Sovietized in its orientation and policy preferences. Belarusian identity generally lacks firmly rooted Western traditions, because of the historical legacies of Belarus's political and economic development under Russian rule from the seventeenth century to 1991, first under the Russian Empire and then the Soviet Union. This experience infused Belarusian identity with historically deep-rooted connections to Russia politically, economically, culturally, linguistically and religiously. Although being increasingly Russified under Tsarist Rule, Belarus had not yet developed a strong sense of identity before 1917. As well, Belarus largely remained economically underdeveloped and agricultural prior to

becoming communist. This changed under Soviet rule, where Belarus was exposed to the full brunt of Soviet political, economic and social engineering. Overall, Belarus became economically developed and industrialized, and achieved significant welfare growth under communism. This in turn facilitated the creation of a highly Russified and Sovietized identity, which helps account for the persistence of significant support for illiberal ideas and ideological preferences in favour of Soviet-style economic planning.

In terms of actual monetary policy, Belarusian preferences have largely been a continuation of the policies found during the Soviet period. In general, monetary and macroeconomic reform has been non-existent, and the Belarusian economy largely resembles the command-type economy characteristic of Soviet times.¹⁶ In continuing the old command style monetary policies, the Belarusian central bank, the Belarusian National Bank (NBB), has been subject to increasing political interference from the Belarus's government and its authoritarian ruler, President Alexander Lukashenka.¹⁷ While the NBB on paper is supposed to be independent, as stated in the Belarus Central Bank Act of 1994, these rules have been largely disregarded, as the NBB is repeatedly subjected to extensive political interference and is effectively subservient to the president. In this regard, the president has final say on the monetary policy of the central, because Lukashenka can replace the head of the NBB, particularly if the head of the central bank is not in concert with the government's official policy (Freedom House, 2001: 131; IMF, 1998: 41). Furthermore, because the NBB has effective control over the policy of commercial banks, which are all state owned, this gives the Belarusian government over virtually all macro and microeconomic matters. The state also continues to institute firm price controls over many aspects of the Belarusian economy,¹⁸ which is reminiscent of Soviet times.

Economic restructuring, in the form of large-scale privatizations has remained non-existent in Belarus, as the Belarusian government still controls close to 80 percent of the country's assets (Silitski, 2006: 48). This has led to the biggest throwback to the communist era, where the Belarusian government continues to use monetary policy in an expansionary way to help fund government fiscal spending and also to direct credit subsidies to the many state-owned Soviet era heavy industries and collective farms. Overall, this has allowed the Belarusian government to be able to remain ill-disciplined in its fiscal spending habits, as government deficits have been an annual persistence (see Table 7).

Table 7

Belarus: Annual Budget Balances (in per cent of GDP)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-2.7	-1.5	-0.7	-1.0	-2.0	-0.1	-1.9	-2.1	-1.7	0.0	-0.7	1.4	-1.5

Source: EBRD (2007: 66)

While these numbers might seem low, the Belarusian government pays for its flagrant spending largely by directing the NBB to run an expansionary credit policy, which usually defies all economic logic, where it essentially prints new money to make up for government cash short-falls (Freedom House, 2001, 130-131). This highlights the lack of independence from political

¹⁶ Belarus regularly scores at the bottom of the Transition Indicator Rating, ranging from 1 (least progress) to 4.33 (Most Progress) of the European Bank for Reconstruction and Development Annual Report (EBRD). For example, 1.6 (2000), and 1.81 (2005).

¹⁷ This command and control nature of state involvement in the Belarusian economy has been increasingly strengthened since 1994, under President Alexander Lukashenka. In general, Lukashenka's governing style is "deeply rooted in Soviet and Communist traditions" (Furman, 1999: 39).

¹⁸ In 1998, the IMF reported that price controls were over 30-35 percent (IMF, 1998: 62).

interference for the central bank, because the NBB is powerless to stop the government's ability to borrow and its preference to pay for this fiscal imprudence by using monetary policy in an expansionary way. Moreover, by maintaining the lax command-style monetary policies, characteristic of Soviet times, this has inhibited efforts to reform other areas of the Belarusian economy, and has also contributed to very high rates of inflation. For example, Belarus experienced severe hyper-inflation from 1993 to 1995,¹⁹ and also from 1999-2000 (see Table 8). Although these numbers have improved recently, and the Belarusian economy has stabilized significantly, a large reason for this sustainability has nothing to do with the economic merits of Belarus's neo-Soviet command model. Instead, this precarious stabilization has more to do with massive subsidization, in the form of cheap oil and gas, that Belarus has continually received from Russia (Ioffe, 2004: 90; Silitski, 2006, 49).

Table 8

Belarus: Annual Inflation Rates (in per cent)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
709.3	52.7	63.9	72.9	293.7	168.6	61.1	42.5	28.4	18.1	10.3	7.0	8.0
Source: EBRD (2007: 65)												

Belarus has also consistently followed a pattern of trying to reintegrate monetarily with Russia. Immediately following 1991, the Belarusian government sought to remain in the Ruble zone, and continued to do so until Russian policy makers pulled the plug on an extended ruble monetary union in 1993. Although Belarus did introduce its own currency, the Belarusian ruble in 1992, it has since attempted to achieve monetary with Russia. This first began before 1994 with Viacheslau Kebich, and has continued since then under president Lukashenka (see Markus, 1996). Belarus and Russia have both signed repeated agreements on eventual monetary integration, the latest signed in 2000, which would likely see monetary policy decision making ability surrendered to Moscow (see Lisovskaia and Korosteleva, 2003: 140-42; Nesvetailova, 2003: 154-56).

Some have argued that such actions are a consequence of Belarusian identity being incoherent, which thus causes macroeconomic policy to be merely driven by material gain and lacking in “national purpose” (Abdelal, 2001:149). However, on second glance this judgment appears to be incorrect, because it seems more probable that Belarus's strong and coherent Sovietized identity was the main factor driving policies for reintegration. This is because monetary union would have the effect of allowing Belarus to continue pursuing its ideologically preferred Soviet command-style macroeconomic and monetary policies without reforming.²⁰ This was seen in the period until 1993 when Belarus tried to stay in the extended ruble zone, where because of the Central Bank of Russia's (CBR) originally ambivalent attitude towards monitoring credit creation in member states, Belarus was allowed to use seignorage rights to issue credits to pay for government deficits, and subsidies to state owned enterprises (Conway, 1995: 34). This favourable situation changed in mid-1993 when “the need for seignorage...ran headlong into the unwillingness of the CBR to provide sufficient banknotes or to honour directed credits issued by member national banks” (Conway, 1995: 56).

Although Belarus and Russia have signed multiple agreements on eventual monetary union, none of these have yet come to fruition. A large reason for this is that Belarusian government was unwilling to surrender the powers of monetary control over to Moscow, since this

¹⁹ From 1993 to 1995, Belarus recorded consecutive annual inflation rates of 1191 percent, 2220 percent, and 709 percent (Freedom House, 2001: 112).

²⁰ As pointed out in *The Economist* Belarus appeared “to look on economic integration with Russia as a substitute for reform” (1995: 47).

would end Minsk’s powers of seignorage through its control of the NBB. To illustrate, by 2000, Moscow was already demanding “that Belarus reform its financial system and monetary policy, reduce the budget deficit and inflation and stabilize the economy” (Nesvetailova, 2003, 161). This would mean that the Belarusian government would have to give up significant leverage in regards to sovereignty over monetary policy, and thus could no longer use the powers of monetary expansion to fuel its high budgetary expenditures, and preference for issuing credit to subsidize Soviet era enterprises. As a result, the Belarusian government has chosen to opt for preserving its sovereignty, and continues to maintain its independence in regards to monetary policy.²¹

Belarus: Strong Sovietized/Russified Identity

Belarus’s policy preferences since 1991, which can be characterized as being pro-Russian, anti-reform, and ill-liberal in mindset, has led some to argue that this is a product of Belarus having an identity that is unclear, incoherent, and even “contested and ambiguous”(Abdelal, 2005, Marples, 1999). These assumptions, however, appear unfair and even misleading, because if anything, the consistency of Belarusian monetary and macroeconomic policy since 1991 has shown that Belarusian’s do have a clear and coherent identity and ideational preferences, which can be characterized as being highly Sovietized. This has become apparent with the total decline of democracy²² in Belarus since 1994 under president Lukashenka, which was never really strong as former communists held on to power after 1991.

In this political environment, the Russified and Sovietized Belarusian identity has led to a great deal of support amongst the Belarusian political elites and public for the government’s neo-Soviet monetary and macroeconomic policy, and its authoritarian measures in regards to the political economy in general. In regards to Belarusian political elites, Kuzio points out that most of political figures “remain committed to Soviet-style planning and production targets” (2001: 482). Moreover, in terms of the broad public, Belarusian voting preferences show that the populace remains solidly Russified and Sovietized in its voting habits. This was first seen in 1994, when Lukashenka was first elected president, in free and fair elections, on a pro-Russian, pro-Soviet, and authoritarian election platform, receiving over 80 percent of the vote against his main opponent Kebich who was also equally very pro-Russian and anti-reform in his policy positions (Lukashuk, 2001: 306-307; Markus, 1996). There has since, also not been widespread public aversion in Belarus to the lack of respect for democracy, nor to the government and Lukashenka’s increasingly authoritarian and neo-Soviet nature. In general, a dislike of democracy and favouritism towards “authoritarian power is embedded in the political culture of the population” (Silitski: 2006, 47; see also Mihalisko, 1997: 259; Naumczuk et al, 2001: 8).

Finally, even though Belarusian elections have now ceased to be free and fair, there is evidence that regardless of this Lukashenka still remains popular, and would even have been elected with a majority in 2001 under truly democratic procedures (Economist, 2001; Ioffe, 2003: 1009). Furthermore, it is a continual fact in Belarus that the pro-reform liberal, pro-Europe and anti-

²¹ It should be noted, however, that while Belarus remains friendly to Russia, there is growing evidence that Belarusian sovereignty from Russia is being guarded by Belarusian authorities. In the Belarusian economy in general, the firm control that government has over virtually all aspects of the economy has meant that “Russian capital has failed to establish a meaningful presence in Belarus because the country’s economic assets are off-limits to any investors” (Silitski, 2006: 50). See also Marples (2004), which points out Lukashenka’s recent resistance to the establishment of a common currency with Russia.

²² Belarus consistently ranked near the bottom of democracy ratings, and has been accurately described as being a “consolidated autocracy” (Freedom House, 2001: 19), and a “noncompetitive political regime” (World Bank, 2002: 98-99).

Russian political parties, such as the Belarusian Popular Front (BPF) which are labeled as “nationalists” by observers in the West (Abdelal, 2001: 127-149, 2005: 40-41; Beissinger, 1996) only receive minute support from Belarusian voters. To illustrate, Beissinger argues that “in spite of considerable effort on their part, Belarusian nationalists ultimately failed in their efforts to mobilize the Belarusian population around the anti-imperial frame of the cycle” (1996: 124). As a result, there is huge divide between Belarusian “nationalists” and average Belarusians, because the BPF’s political and economic values and ideas do not resonate widely with the broad public (Marples, 2004; Sahm, 1999: 655), which tends to be loathsome towards the Western ideals of liberal democracy and capitalism.²³

Since, liberal, pro-European, anti-Russian and anti-Soviet ideas don not resonate widely with the mass Belarusian public, it is therefore important to examine the explanatory factors that have led to its intensely Russified and Sovietized outlook in regards to its policy orientation and preference. Culturally, Belarus shares many links with Russia. One aspect of this is the linguistic similarities between the Belarusian and Russian languages. Also of great importance are the religious ties, in that the majority of Belarusians are members of the Russian Orthodox Church, which historically has played a significant role in Russifying the population. Years of political rule under the Russian Empire from the seventeenth century onwards helped early on in Russifying the population of Belarus. Repeatedly, under consecutive Tsars, Russian language and culture were promoted to the detriment of the emergence of a distinctly Belarusian one developing. This was done through policies such as restricting the use of the Belarusian language, banning local political parties and civil society organizations, and by banning all other churches except the Russian Orthodox Church (Burant, 1995: 1132; Eke and Kuzio, 2000: 526). As a result, by the end of Russian Empire in 1917, Belarusian society was already beginning to be heavily Russified in terms of language, culture, and religion.

While some nationalist freedoms were granted under V. I. Lenin in the early years of Soviet rule, however, the Soviets under Stalin mercilessly continued the policy of Russification. Stalin wiped out almost all of the nationalist intelligentsia, to fully crush any possible nationalist sentiment from growing. Zaprudnik shows that Stalin’s actions took a great toll on the Belarusian population, culture and society, and could rightfully be labeled as ethnocidal and genocidal (1993: 88-89). Although Belarus suffered under the terror inflicted by Stalin, these events tended to be forgotten following the German invasion of 1941. Belarus was severely devastated during the Second World War, losing 20-25 percent of its population, and 90 percent of its infrastructure, leaving virtually all Belarusian cities destroyed (Ioffe, 2004: 86; Mihalisko, 1997: 225). The events of the Second World War were a defining moment for Belarusians and helped to harden the Russified nature of Belarusian identity. During the struggle, Belarusians in large numbers formed as partisans to fight the Germans, in assistance to the Soviet War effort. In what is referred to as the Great Patriotic War, the Belarusians viewed the Russians as their comrades and brothers and sisters in arms, and as a result, the stories of anti-German resistance have been greatly mythologized in Belarus (Eke and Kuzio, 2000: 529; Marples, 2004: 33; Mihalisko, 1997: 233). In

²³ A further example of the Russified and Sovietized Belarusian identity, was seen with the overwhelming support of the people that voted in support of making Russian an official state language, giving President Lukashenka more authoritarian powers, and to readopt Soviet Belarusian national symbols in 1995, such as the red and green flag, to replace the symbols preferred by the “nationalist” parties (Economist, 1995). It should also be noted that the KGB still exists in Belarus.

general, for Belarusians, the Russians and Soviets were viewed as protectors from the foreign invaders.

Since then, the Russified and Sovietized Belarusian identity was largely solidified after 1945 with the intensive rebuilding and industrial development of Belarus by the Soviets. Through the total use of the state, the Soviets were able to complete the process of Russifying the Belarusians, and greatly succeeded in forging a Belarusian identity that is Sovietized. Prior to 1926, Belarus was a rural and underdeveloped peasant economy with little industry.²⁴ In the years following 1945, under the Soviet command economic system, Belarus developed to become one of the most highly modernized, industrialized, urbanized and affluent (by Soviet standards) of all the Soviet Republics. Belarus lead in advanced industrial and technological production, and also made great leaps in the service sector. Huge advancements were also made in Belarus during this time in education, health, and social welfare indicators. Essentially, as some have argued, Belarus became a showpiece of Soviet communism, the “shop window” and “assembly shop” of the Soviet Union (Eke and Kuzio, 2000: 537; Ioffe, 2004: 85-89). Consequently, most Belarusians view the Soviet era with nostalgia, as a time of great advancement (Mihalisko, 1997: 259).

Russification and Sovietization was aided by modernization because Russian became the dominant language for education, work, service in the military, government, media, cultural events and entertainment (Ioffe, 2003; Mihalisko, 1997: 235). Moreover, because Belarus received a great many benefits in the form of economic development and modernization under the Soviet system, most Belarusians continued to view Russians with little hostility. Today in Belarusian society, Russian is the preferred language of most citizens, and the Belarusian language is used by less than 10 percent of the population (Burant, 1995: 1133; Eke and Kuzio, 2000: 534; Ioffe, 2003: 1018). Also, most media outlets continue to be in Russian, as too is the provision of education. In terms of religion, Belarus’s orientation towards Russia is also greatly facilitated by the fact that the dominant religion to which most Belarusian parishioners belong is the Russian Orthodox Church.

To conclude, Belarus has followed a relatively consistent and clear pattern of behavior in regards to monetary policy and macroeconomic matters, which could be described as being neo-Soviet. In general, the Belarusian government controls virtually all aspects of the political economy, and macroeconomic and monetary reform has been virtually non-existent. Consequently, Belarusian macroeconomic and monetary policy has continued to remain illiberal, authoritarian, arbitrary, and generally lacking in respect of the rule of law. The primary factor explaining Belarus’s retention of in Soviet era methods is the strong and cohesive Belarusian identity, which is highly Russified and Sovietized in its orientation and policy preferences. Belarusian identity generally lacks firmly rooted Western traditions, because of the historical legacies of Belarus’s political and economic development under the Russian Empire and the Soviet Union. This experience infused Belarusian identity with historically deep-rooted connections to Russia politically, economically, culturally, linguistically and religiously. Most importantly, because Belarus largely remained economically underdeveloped and agricultural prior to becoming communist, which changed under Soviet rule where Belarus became economically modernized and industrialized, and also developed a strongly cohesive Sovietized identity. This in turn helps to account for the persistence of significant support for old, illiberal ideas and ideological preferences in favour of Soviet-style economic planning.

In contrast to Estonia and Czech Republic where Western liberal political and economic ideals and values are pervasive and strongly rooted, anti-liberal, pro-Soviet and pro-Russian ideas

²⁴ Of Belarus’s 1926 population of 5 million, 82 percent were rural, and 91 percent were peasants (Zaprudnik, 1993: 78).

and ideological preferences form the bedrock Belarusian identity at the moment. While Belarusian identity is certainly not permanent, it will take time and more than just idealistic thoughts to think that Belarusian identity will suddenly make a shift to liberal ideas and ideological preferences in regards to politics and economic. These values and traditions lack firm roots in Belarus, and as a result, authoritarian political traditions, and preferences for command-style economic policies will continue to persist.

Ukraine: Inconsistent Monetary and Macroeconomic Policy

Ukraine, with a large educated workforce, high urbanization, modernization, industrialization, and immense agricultural capacity has probably been one of the biggest economic underperformers of all of the post-Soviet states. In particular, Ukraine sits on the fringe and has made neither consistent macroeconomic choices, nor a clear decision whether to align its economic relations towards Russia or Western Europe. The primary reason for this is that preferences for new and old economic ideas and ideologies are highly contested, due to split Ukrainian identities²⁵ and mixed experiences under communism, which has led to the most incoherent types and orientations of monetary policy seen amongst the various groups of states. Contributing to this, Ukraine also has historic political, economic, cultural and religious connections to both Western Europe and to the Orthodox East. As a result there has been great difficulty in Ukraine in building a workable consensus over issues of policy reforms. This has resulted in minimal monetary reform on the part of Ukraine, where central bank independence remains dubious, inflationary pressures remain, and government budget deficits and debts continue to persist.

Initially, upon gaining independence in 1991, Ukraine sought to remain part of the ruble zone. This, however, proved to be short-lived, and the Ukrainian government withdrew from the ruble zone in 1992, and introduced the transition currency, the karbovants, while the ruble was gradually filtered out of circulation in Ukraine. Although Ukraine did withdraw, the Ukrainian government under President Leonid Kravchuk, from 1991 to 1994 did next to nothing in terms of reforming or significantly reorienting Ukrainian monetary policy. Increasingly, as in Soviet times, the central bank was used to flagrantly print money to write off government fiscal deficit expenditures and to provide financial credit to old inefficient state-owned enterprises in agriculture and industry.²⁶

President Kravchuk and the Ukrainian Parliament were able to do this because, the central bank, the National Bank of Ukraine (NBU) lacked real independence from political interference. In this regard, parliament and the president used monetary policy in an expansionary way to cover increasing government deficits and to pay direct credits to inefficient soviet industries and agriculture collectives, which were located predominantly in Eastern Ukraine. Consequently, as Prizel points out, not much had changed in the Ukrainian political economy by 1997, because “Kravchuk’s economic team continued to provide huge ruble-denominated credits to the failing sectors” which “left the Brezhnevite morass in place” (1997: 345; see also Prizel, 1994: 125). The continuation of these command-style policies during Kravchuk’s time in office, greatly inhibited much needed structural reform, and negatively affected the entire economy by contributing to hyperinflation²⁷ (see Sachs and Pivovarsky, 1997: 3; Shen, 1996: 36; Wilson, 2000: 257).

²⁵ Wilson refers to a Ukrainian’s having a “split personality” (2000: 146).

²⁶ This was a continuation of Soviet era policies because, during the communist era, “the government shored up failing firms, even those that were...clearly nonviable, wasting scarce social resources” (Shen, 1996: 152).

²⁷ For example, in 1993 and 1994, Ukraine’s annual inflation rates were 4734.9 percent, and 891.2 percent (Freedom House, 2001: 660).

After the election of President Leonid Kuchma in 1994, some monetary reform did begin to take place, but it was neither extensive nor consistent. Often rhetoric regarding macroeconomic reform was never backed up with real action. One important measure that did occur was that inflation started to be brought under control, and decreased to more stable levels (see Table 9).

Table 9

Ukraine: Annual Inflation Rates (in per cent)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
377.0	80.0	15.9	10.6	22.7	28.2	12.0	0.8	5.2	9.0	13.5	9.1	9.7

Source: EBRD (2007: 65)

Moreover, under Kuchma, the Ukraine was finally able to introduce their official currency, the Hryvnia in 1996, which was quite late compared to the other post-communist. However, while inflation was somewhat stabilized it continued to be high as compared to the other post-communist-states where extensive monetary and general macroeconomic reform had taken place. A large reason for Ukraine's lackluster monetary policy performance was because reform efforts largely remained minimal and inconsistent under President Kuchma. This inconsistency was witnessed with continued government fiscal deficits (see Table 10) and direct monetary credit subsidies to state-owned industries (Schaechter, 2006: 89), which Ukrainian politicians paid for by using political interference to make the NBU print more money to finance these endeavors.

Table 10

Ukraine: Annual Budget Balances (in per cent of GDP)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-4.7	-3.2	-5.4	-2.5	-2.3	-1.1	-0.9	0.1	-0.7	-6.2	-2.3	-1.9	-2.7

Source: EBRD (2007: 66)

Although the Bank Act was brought into legal effect in 1998, which on paper stated that the NBU was to be independent, this has proved to be illusory as the president and parliament were the ones which had direct control of the direction of Ukraine's monetary policy.²⁸ Consequently, Ukraine's monetary policy has only been minimally reformed, and can still be characterized to a significant degree by aspects that remain reminiscent of command policy programs.

Ukraine: Split Identity

A large reason for minimal nature of macroeconomic and monetary reform in Ukraine is the Ukrainian split identity, which is seen in the complete lack of consensus amongst government officials in parliament over macroeconomic reform measures. Ukraine's split identity forms the basis of most partisan battles, which primarily pits politicians from Western Ukraine against politicians from Eastern Ukraine (see for example, Economist, 2007). In general, the Ukrainian parliament has been split largely on matters of macroeconomic and monetary reform, between politicians from Western Ukraine whose policy preferences are pro-reform and pro-European, and left-leaning politicians and political parties from the Eastern Ukraine whose policy preferences tend to be anti-reform and pro-Russian in orientation. In the middle of these two large minorities that has divide the Ukrainian parliament since 1991, is a group largely made up of former high

²⁸ Continuing problems with continuing political interference on the NBU has been reported by the EU, Freedom House, etc. (European Union, 2004: 13; Freedom House, 2001: 686).

ranking members of the communist elite that has been able to play off each against the other, in order to keep power and maintain the status quo (Eichler, 2005: 82; Furman, 1999: 43; Wolczuk, 2001: 246). Past Presidents' Kravchuk and Kuchma are representative of this middle group, and were not centrists by any Western European standards.

In this political situation, where politics is split between two competing versions of Ukrainian identity, and where former communist elites were able to maintain their privileges and power, macroeconomic and monetary reform has stood a standstill, and has been gradual at best when changes have occurred. This is because “these individuals are still steeped in traditional Soviet practices and cherish many of the same old values,” which “expresses itself in legislative and administrative decisions” (Shen, 1996: 50;). These vested political interests in the old guard and leftist parties from Eastern Ukraine that benefit from the continuation of Soviet style policies were not committed to meaningful reform, and have effectively been able to block extensive reforms and also intimidate those trying to promote agendas of policy reform (Åslund, 2002: 63; Kubiček, 1996: 41; Prizel, 1997: 344). Consequently, this has meant that many aspects of the old macroeconomic habits and monetary practices from Soviet times have stubbornly persisted and remained an ongoing feature in Ukraine’s political economy since 1991.²⁹

While it is true that some important steps at reform have taken place, these measure have often proven to be short lived and/or not supported by complementary reform in other aspects of the Ukrainian economy. Although Ukraine has moved far ahead of neo-Soviet Belarus in terms of monetary and macroeconomic reform, however, when compared to the progress made by countries such as Estonia and Czech Republic, Ukraine remains a laggard and thus has no clear or coherent direction in terms of monetary policy orientation. Even today, following the Orange revolution in 2004, progress in substantially reforming the economy and monetary policy continues to be limited (Arel, 2005: 325; Whitmore, 2007). This is because Ukrainian politics continues to be at loggerheads in terms of deciding on clear steps to be taken in terms of policy type and orientation.

As mentioned above, the reason for the lack of reform in Ukraine results from its split identity which divides Western and Eastern Ukraine. This is seen the identity of Western Ukraine, which is generally pro-European, liberal, and pro-reform in its policy preferences, and the identity of Eastern Ukraine, which predominately tends to be pro-Russian, Sovietized, and anti-reform in orientation. Both the Western and Eastern parts largely view and define themselves as Ukrainian, but diverge greatly in terms of what countries are perceived as “others” and “ours” (Arel, 2005: 327; Feldhusen, 1999: 123; Prizel, 1997: 333; Shulman, 2004: 39-41).³⁰ This divided nature of Ukrainian identity, is also a primary cause for Ukraine’s foreign economic policy remaining in uncertain. Indeed, the two identities tend to lead to two distinct options, as a consistent pro-reform policy, preferred by Western Ukrainians would allow Ukraine to gravitate toward the EU, while an anti-reform agenda, preferred by Eastern Ukrainians would cause Ukraine move towards Russia.

It seems apparent that split identities and ideational preferences that divides Western and Eastern Ukraine is a result of both regions divergent historical legacies in relation to politics, economics, culture and religion. Generally, the identity of Western Ukraine is staunchly

²⁹ For example, Wilson notes that in regards to the Political Economy, “Ukrainian elite continue to think and act according to Soviet traditions of divide and rule, clientelism and *kompromat*” (Wilson, 2000: 314). Moreover, while some critics might view the increasing power of oligarchs as a consequence of pushing capitalism on the post-communist countries to soon, it is important to realize that in regards to “the operation of clans and mafia groups within the political system” that this is nothing new because “it is clear that the Communist Party of the Soviet Union supported regional and family clans through its system of patronage” (Diuk, 2001: 61; see also Harasymiw, 2002: 387-388).

³⁰ Also form my own observations when I traveled to Ukraine in December 2006.

nationalist, and largely views Ukraine as being linked to Europe and distinct from Russia in its values and traditions.³¹ The identity of Western Ukraine tends to be favourable to economic reform and is pro-European in its outlook, and can be characterized as having predominantly strong liberal values and traditions in relation to politics and economics (Burant, 1995; Kuzio and Nordberg, 1999). The epicenter of the Ukrainian identity that emanates in the Western regions, is the area known as Galicia and the city of Lviv, where the historical experience of political, economic and cultural development differs greatly from the Eastern regions of Ukraine. This is because Galicia was the only region of Ukraine that never experienced being ruled by the Russian Empire, as Galicia was a part of the Austro-Hungarian Empire until 1918. Moreover after 1918, Galicia as well as the Western regions of Rivne and Volyn were part of Poland until 1939, and did not become fully incorporated into the Soviet Union until after 1945. Consequently, these western regions of Ukraine, especially Galicia, were able to escape much of the Russification that had already begun in Eastern Ukraine under the Russian Empire, and most importantly were able to escape many of the worst aspects of the terror and brutality of Stalin's Sovietization that was inflicted on the Ukrainians living in the East.

Under Austro-Hungarian dominion, Ukrainian identity flourished and was infused with many of the political economic, cultural and social traditions characteristic of Western Europe. Politically, Vienna allowed Ukrainians in Galicia to form political parties and civil society organization. Also by the nineteenth century, Ukrainians in Galicia were beginning to gain some experience with democracy, as the Austrians allowed some semblance of local autonomy in the form local government, which were elected democratically after 1907 by universal suffrage (Birch, 2000: 1021; Wilson, 1997: 36-37). Economically, the Ukrainians living in Galicia had experience with private property and western economic modes under Austro-Hungarian rule, as serfdom was abolished during the nineteenth century.

The Austrians were generally tolerant towards religious and cultural freedoms. Religiously, under the influence and guidance of the Ukrainian Greek Orthodox Church (Uniate), this allowed Ukrainian cultural and civic society organizations to flourish. As Wilson points out, "the Uniate Church in Galicia created a powerful psychological and cultural barrier between the Galician's and their Orthodox brethren in the Russian Empire" (Wilson, 1997:9; for the importance of the Uniate Church, see also Prizel, 1994: 108). Culturally, this allowed Ukrainian culture make great leaps forward in Galicia, and significant linguistic and literary achievements were made. Also, because there were no linguistic restrictions on the use of the Ukrainian language in Western Ukraine, this facilitated Ukrainian to become the dominant language of the Western regions which it still remains today. Thus during this time, the people of Galicia were able to develop a distinctly Europeanized Ukrainian identity, which was viewed as being distinct from the Russians, who were seen as the opposing "other" which was oppressing and Russifying their fellow Ukrainians in the Eastern regions ruled by the Russian Empire and then the Soviet Union (Wilson, 2000: 109). Moreover, under Polish rule in the interwar period, Ukrainians from Galicia and also the other Western Ukrainian regions that also were part of Poland until 1939 were able to maintain and strengthen this identity.

Western Ukrainian experience during the Second World War also differed from that of Eastern Ukraine. In the Western regions, such as those of Galicia, western Ukrainian anti-Russian sentiments were solidified with the Soviet invasion of 1939 and the subsequent mass deportations and suppression of Ukrainian politics, economics, culture, religion that occurred until the German

³¹ Observations from speaking to Ukrainian graduate students from Lviv, while traveling in Ukraine in December 2006.

invasion in 1941. Initially, Germans were viewed by many as liberators from the Soviet oppression, and there was some collaboration. However, as a result of the terror inflicted by Germans, larger numbers of Western Ukrainians joined nationalist resistance forces that while not collaborating with the Germans, joined in active armed struggle against Soviet forces. Moreover, this active resistance on the part of Ukrainian nationalist in Western Ukraine also continued fighting the Soviet occupation into the mid-1950s.³² Today, this resistance is more mythologized in Western Ukraine identity, whose historical interpretation of the Second World War differs from the historical interpretation seen in Eastern Ukraine (Ropper and Fesnic, 2003: 122; Von Hagen, 1995: 672; Wanner, 1998: 148-150). Following the Second World War, a large amount of political repression was unleashed by the Soviets towards Western Ukraine until Stalin died. However, the Ukrainian identity of Western Ukraine survived Stalin's terror, and in the years after Stalin's death until the breakup of the Soviet, the Western parts of Ukraine remained the "Piedmont" of Ukrainian national dissidence (Motyl and Krawchenko, 1997: 251).

The problem facing the Ukrainian identity which emanates from Western Ukraine, is that this identity is largely confined to this region of the country. In the eastern regions, the Ukrainian identity is largely Russified and Sovietized in its preferences and orientation, which is the result of being subjected to years of Russian rule. Compared to Western Ukraine, the people of Eastern Ukraine faced continuous policies of Russification, which started under the Tsars, where political freedoms were minimal and native Ukrainian cultural, linguistic and religious institutions were suppressed to the benefit of Russian culture. In linguistic terms, use of Ukrainian language faced restrictions beginning under the Russian Empire, which continued and became severally repressive in the Soviet Era, thus enabling Russian to become the dominant language in the eastern regions. As Prazaukas argues, "in the Russian empire and the USSR Ukrainian Nationalism was considered a worse crime than the nationalism of any other group," and thus was treated unkindly (1994: 167). Religiously, the Uniate Church, which was an important in Western Ukraine for fostering Ukrainian national identity and culture, was banned and the Russian Orthodox Church became the dominant religious body. Economically, the Ukrainians under Russian dominion remained predominantly under serfdom much later and were not infused with much western liberal economic traditions, compared to the Ukrainians living in the regions ruled by the Austrians.

The Soviets, through total use of the state were able to complete the process of Russifying the Ukrainian identity in Eastern Ukraine, and greatly succeed in creating a Ukrainian identity that is Russified and Sovietized. The Soviets, under Stalin wiped out almost all of the nationalist intelligentsia.³³ Then to fully extinguish nationalist sentiment in Eastern Ukraine, Stalin embarked on his policies of collectivizing agricultural, to crush the Ukrainian peasant's individualist spirit.³⁴ To do so, the Soviets imposed unrealistic quotas, which resulted in what could be called a politically driven famine of genocidal proportions, where seven million rural Ukrainians were deliberately starved to death (Conquest, 1986; Wilson, 2000, 144). This, along with the elite deportations, disappearances and executions of Ukraine's elite served to break the back of a

³² It has been estimated that somewhere around 220,000 Ukrainians fought with German forces and some 100,000 fought later with the Ukrainian Insurgent Army (UPA) (Kuzio and Nordberg, 1999: 72; Wilson, 1997: 48-51).

³³ Wilson puts the figure at about 80 percent of the intelligentsia from Eastern Ukraine (2000: 146).

³⁴ As several have noted, it was in the rural parts of Eastern Ukraine where nationalism was strongest. This was exemplified in the Ukrainian nationalist myths that stressed the peasants' individualism...attachment to the Ukrainian land, and a craving for freedom" (Kubiček, 1996: 45). Most important for the purposes of Soviet social engineering, the Famine helped wiped out the independent family farm and destroyed the rural middle class (see Shen, 1996: 21-26). The experience of Eastern Ukrainians during the Second World War is very similar to that of the Belarusians whom like Eastern Ukrainians tended to view the Russians as the protector against the Germans.

distinct Ukrainian national identity in the Eastern regions (Conquest, 1986; Wilson, 1997, 17), which up to this point had survived and was witnessed in between 1917-1920, in the short-lived independent Ukraine that existed after the fall of the Russian Empire.

During the Second World War, the Eastern experience diverged from the Western one. As many as two million Eastern Ukrainians fought for the Red Army, and anti-Soviet resistance was largely non-existent.³⁵ Following the Ukrainian Famine and the Second World War, more and more individuals moved from rural Ukraine to the urban areas, where modernization and industrialization progressed rapidly under the Soviets, particularly after 1945. In the urban environment, Ukrainians were easily Russified and Sovietized, as Russian was used as the official language for education, government and work purposes (see Wilson: 2000: 145). Linguistically, these policies of Russification were highly successful as there is now a large split between the East and West, as Russian is the dominant language of the Eastern region, in contrast to Western Ukraine, where Ukrainian is the dominant language (Eichler, 2005: 81; Olszański, 2000: 46).

Similar to Belarus, the Eastern regions of Ukraine economically developed, urbanized, became heavily industrialized, and also subsequently saw significant gains made in terms of welfare, education, and living standards (Birch, 2000: 1027; Prizel, 1997: 335). The heavily industrialized region of Eastern Ukraine, like Belarus, was one of the showcases of Soviet industry and also one of the wealthiest parts of Ukraine and the Soviet Union. This helped Russify and Sovietize the policy preferences and orientations of the Eastern Ukrainian identity, which continues to be strong today. As Wanner argues “the culture of fraud, the Kafkaesque state regulations, and established conceptions of self and community carry on, all of which give life to the Soviet legacy” (1998: 72; see also Harasymiw, 2002: 431; Pirie, 1996; Wilson, 2000: 148). The ideational and ideological outlook of the Ukrainian identity emanating from Eastern Ukraine, tends to favour more authoritarian politics parties of the left, and anti-reform economic and monetary policies. This is illustrated in the fact that this region tends to vote overwhelmingly for the old parties of the left and former communists (Arel, 2005: 327; Furman, 1999: 45). Consequently, there has never been much support in Eastern Ukraine for the liberal parties based of Western Ukraine, which advocate for a pro-reform and pro-European economic and political policy orientation.

As a result of these two divergent identities found in the Eastern and Western regions of Ukraine, the politics over macroeconomic and monetary reform has remained at an impasse, with reform only progressing in gradually small amounts. This lack of serious reform has meant that old monetary policy habits have persisted, such as expansionary monetary policy to fund fiscal deficits and subsidize old inefficient Soviet-era industries. The continuation of these Soviet-style policy measures has served to benefit the Eastern regions of Ukraine, where most of the Soviet heavy industry exists and where the Russified and Sovietized Ukrainian identity is strongest. Consequently, like in soviet times, the industrial regions of Eastern Ukraine continue to be the most economically well-off of the whole country (Arel, 2005: 327). Therefore, because of the split identities that divide Western and Eastern Ukraine, and their divergent ideational and ideological preferences, the chance for real monetary policy reform in Ukraine or any macroeconomic reform in general remains minimal, since neither version of Ukrainian identity can command a majority of support. Finally, because the ruling elite in Ukraine which forms the middle, tends to be largely made up of former communist officials that have not been able to come to a definitive decision on which direction Ukraine’s political economy should travel, many of the monetary policies and

³⁵ It might seem odd that there was less resistance in the eastern regions to Soviet rule, but as Wilson points out “the Purges were brutally effective” (Wilson, 2000: 146).

macroeconomic habits that were found under Soviet rule, such as political interference, arbitrariness, total disregard for all economic logic, and lack of respect for the rule of law will continue to persist.

Romania: Inconsistent Monetary and Macroeconomic Policy

Romania shares many similarities with Ukraine, particularly in terms of having consecutive post-communist governments that up until recently have consistently failed to implement serious macroeconomic reforms. Similar to Ukraine, Romania's preferences for new and old economic ideas and ideologies are highly contested, due to Romania's split identity, which is a result of its historic political, economic, cultural and religious connections to both Western Europe and also to the Orthodox East and its mixed experiences under communism. Consequently, Romania's split and fluctuating identity has caused great difficulty in Romania for building a workable consensus over issues of macroeconomic policy reforms, which has led to the most incoherent, gradualist, and inconsistent monetary policy orientations seen amongst the various groups of post-communist states. Compared to Ukraine, Romania has the least split identity of the two, and is generally far more united in its antagonism towards Russia, which has thus enabled it to move further ahead in terms of macroeconomic reform progress.

Although Romania's performance has been better recently, as it was able to accede to become a full member of the European Union in 2007, this does not mask the fact that Romania could be described as a consistent laggard in terms of adopting comprehensive monetary and macroeconomic reforms (Economist, 1996). This is apparent in the fact that although Romania has now acceded to the EU, the policies that Romania implemented only met the bare minimum of reform standards to allow it to transition enough to meet basic requirements of EU accession. In general, there has been great difficulty in Romania in breaking the mold of the past, particularly the historical legacies left over from nearly 50 years of communist rule. Consequently, relative to strong post-communist performers such as Estonia and Czech Republic, the Romanians have made much less progress in ensuring the independence of the central bank, difficulty in lowering inflation, as well as problems in decreasing the government's fiscal budget deficits and debts.

After the fall of Romania's Stalinist dictator Nicolae Ceausescu in December 1989, the first post-communist regime that ruled Romania from 1989 to 1996 was largely a coalition made up of prominent former communists, under President Ion Iliescu's National Salvation Front (NSF) that later became the Romanian Social Democratic Party (PDSR). From 1989 to 1996, President Iliescu and the NSF which controlled Romania's Parliament largely failed to institute any real changes to Romania's monetary policy orientation. In this regard, the first period of rule under Iliescu saw the continuance of old command style policies, where the Romanian government continued to interfere in Romania's economy. A large reason for this was that most of these old communist figures, including Iliescu were unfavourable to serious reforms (Stan, 1997: 129; Weber, 2001: 215). As a result, old habits such as running imprudent fiscal deficits, and paying for these with profligate monetary expansion and inflationary policies continued. As well, to suppress real dissent in favour of reform, Iliescu and the other old communists of the FSN continued to use tactics from the communist era.³⁶

³⁶ This included control of the media, use of the Secret Police, and also using communist friendly coal miners from the Jiu Valley as political thugs to rough up political protestors that were in favour of democratic and liberal reforms (see Pourchot, 1997: 76-80; Roper, 2000: 68-69).

A prime reason for this was that the PDSR government under President Iliescu’s directive continued giving direct credit subsidization to communist era state enterprises in industry and agriculture. The problem with this was that these enterprises were generally steeped high in inefficiencies and were continual money losers. To pay for these direct credits and subsequent government fiscal deficits, the responsibility for the tab was ultimately placed on the central bank, the National Bank of Romania (NBR), which was obligated to do so by direction of the Romanian government (OECD, 2002: 49). The NBR covered the government deficits and credit subsidies by essentially printing more money. As a result, in the years from 1993 to 1994, Romania experienced hyperinflation in the triple digits, which hurt the economy as a whole.³⁷ Thus, a serious problem that remained unchanged was that the NBR continued to be plagued by constant political interference, where consecutive Romanian governments directed the NBR to continue to run inflationary monetary policies with little regard for price stability (see Table 11).

Table 11

Romania: Annual Inflation Rates (in per cent)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
32.3	38.8	154.8	59.1	45.8	45.7	34.5	22.5	15.3	11.9	9.5	6.6	7.0

Source: EBRD (2007: 65)

As a result of the Romanian government’s inability to make a clean break with macroeconomic and monetary policy habits of the communist era, by 1996 reform was minimal and Romania fell increasingly behind the other post-communist countries, such as Estonia and Czech Republic. While not implementing much reform, and continuing to act in illiberal ways in regards to politics and economics, Iliescu and the PDSR government were at least rhetorically “pro-European” in pushing for Romania’s eventual membership to the EU (Phinnemore, 2001: 252). In spite of being a laggard on reform, this actually bore fruit in 1993 when Romania became an associate member of the EU, signaling that it was on the road to eventual membership. Also, to be fair to Iliescu and the PDSR, the Romanian government did institute some monetary restraint, which helped lower inflation from hyperinflationary levels by 1995 (see Table 11). However, because other macroeconomic reform largely remained piecemeal in fashion and were not backed up by constraints on fiscal policy and credit subsidies, or structural reforms, these efforts at monetary restraint did not achieve the best results (OECD, 2002; World Bank, 2002: 34).

In the presidential and parliamentary elections of 1996, the PDSR and President Iliescu were defeated by a coalition of liberal reformers, the Democratic Convention of Romania (CDR) and newly elected President Emil Constantinescu. While talk of reform was great by Constantinescu and the CDR during the election, efforts at reform largely began to become inconsistent and bogged down by the end of 1997. As a result, fiscal budget deficits and inflation fluctuated during Constantinescu’s years in office, from 1996-2000 (see Table(s) 11 and 12).

Table 12

Romania: Annual Budget Balances (in per cent of GDP)												
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-2.5	-3.9	-4.5	-3.2	-4.5	-4.6	-3.3	-2.0	-1.5	-1.5	-1.4	-1.9	-2.5

Source: EBRD (2007: 66)

Some positives did occur during the Constantinescu years, which were very important small steps to help the success of future monetary reform. This included, in 1997, a large cut and

³⁷ Romanian inflation rates in 1993 and 1994 were 256.2 percent and 137.1 percent respectfully (Freedom House, 2001: 508).

reductions to government credit subsidies to state-owned enterprises.³⁸ As a result, there has been an overall reduction in these subsidies from upwards of 17 percent before 1997 to close to 6 percent by 2001 (OECD, 2002: 41). But for the most part, by the end of the millennium, Romania still lagged behind because many of these monetary reforms were minor, in that they were not complemented by significant reforms in other areas of the economy.

In 2000, Constantinescu did not run for the presidency again, and the CDR was defeated in the parliamentary elections, where the former communists of the PDSR were returned to government and Ion Iliescu regained the President's office. Despite Iliescu and the PDSR's dismal reform record while in power from 1989 to 1996, however, in the election of 2000, Iliescu and the PDSR campaigned on a platform that sent mixed messages, as he promised to accelerate integration with the EU, while also promising to "slow down...painful reforms" (Tomiuc, 2000). Nevertheless, by 2000, Romania was in great need of reform in order to facilitate Romania's chances of gaining membership in the EU, which at the time appeared out of reach because of Romania's poor reform progress. This lack of progress continued for a few years after Iliescu returned to power, and was illustrated in various annual reports by the European Union, which monitored Romania's rate of economic transition and progress towards meeting the EU accession requirements (EU, 1998, 2000, 2003, 2004).

Since then, especially after 2003, Romania has made significantly improved progress in reforming macroeconomic policy. For instance, the monetary and fiscal situation has steadily been tightened, which has helped inflation decrease and deficits be reduced from previous years (see Table 12). Moreover, direct credit subsidies have been cut to a minimum, and most importantly, the NBR has to a good extent been able to remain free from political interference (EU, 2004: 86-87, 2005: 51-52). However, compared to the leading reformers of the post-communist states, Romania can still be characterized as being slow and gradual, which means that Romania still has a long way to go before it can catch up to these countries. Furthermore, this progress at reform remains tenuous at best, as the Romanian government is still involved in large parts of the economy. As reported by the EU and other organizations, while NBU independence has been improved, there still remain some loopholes in the laws and statutes that could prove problematic and which need improvement before Romania can join the EMU and adopt Euro (EU, 2004: 86-87, 2005: 51-52).

Romania: Identity in Flux

Romania's lack of progress in making monetary and macroeconomic reforms largely resulted from the failure to develop a stable coalition in the Romanian Parliament that would consistently push through a pro-reform agenda.³⁹ This was largely the outcome of Romania's split and fluctuating identity, which was seen in the great difficulties that the Romanian government was having in separating from the legacies and macroeconomic policies of the communist era. In terms of policy preferences, Romania's split identity has caused Romanian monetary and macroeconomic policy orientation to be quasi-pro-reform and quasi-pro-liberal in nature. However, Romania does not face the same situation as Ukraine because there is not a significant portion of the population that identifies with Russia.

³⁸ In terms of subsidies to old inefficient industries, from 1990 to 1998 Romania gave \$4 billion in subsidies to the Romanian coal industry (Gallagher, 1999: 110).

³⁹ This ever present political divide in Romanian politics was seen recently in the impasse between President Traian Basescu and Prime Minister Calin Popescu Tariceanu (see for example, Economist, 2007a).

Where Romanians remain split in identity is in regards to Romania's dual historical legacies of having shared links with Western Europe, and also with the Orthodox East as represented by Romania's Balkan heritage. Also, Romania's experience under communism, has been a major another inhibitor to Romania's identity gravitating towards being clearly pro-western, liberal, pro-reform in monetary and macroeconomic policy preferences. While it is true that pro-EU sentiment continues to remain relatively high in Romania at 68 percent, as seen in the 2005 Eurobarometer report (3), this should not necessarily be seen as evidence of Romania having adopted a wholeheartedly western liberal identity. In other words, Romania at the moment exhibits a quasi-western liberal identity in regards to economic policy preferences and politics in general, because it seems apparent that Romanians have not fully come to terms with the full meaning of what it actually means to fully integrate into the EU, something Romania has yet to do economically and politically (Economist, 2006a). Consequently a large reason for Romania's laggard performance in reforms and transition is because Western ideas and ideologies in regards to preferences for western liberal economic and democratic political practices are not as widely held in Romania (Chiriac, 2001; Pop-Eleches, 2001: 165).

Romanian, as several have argued, is at a crossroads of cultures,⁴⁰ which contributes to its split identity. Romania's Western heritage is seen with its cultural, religious and especially its linguistic connections with the Latin countries of Europe, particularly France and Italy. Moreover, the western province of Romania, Transylvania has also been a hotspot for the transfusion of western culture and values influencing politics and economics. Similar to Ukrainians in Galicia, Transylvania was ruled by the Austro-Hungarian Empire until 1918. It thus has experienced many of the same freedoms as Galicia, which makes it an area for where liberal political and economic ideals and values can be more readily found.⁴¹ Conversely, Romania can also be characterized as having a Balkan identity, as a result of its Eastern Orthodox heritage. In this Balkan identity, Western liberal values are not as widespread and there is a greater influence to illiberal values such as the adherence to collective and group interests, patrimonial rule, authoritarianism, lack of respect for human rights arbitrariness, and disregard for the rule of law (see Gallagher, 1997; Huntington, 1993: 40).

Independent Romania did have a constitutional monarchy and parliament, which could be argued was stable, particularly during the interwar years until 1938. However, while the constitutional aspect could be seen as being representative of Romania's western identity, Romania's Balkan identity was revealed during this time in the fact that the rule of law was regularly ignored, and constitution was not always firmly adhered to. As Gallagher points out Romania's interwar parliamentary democracy was merely "a caricature of Western forms" (1997: 71; see also Weber, 2001: 212). This authoritarian side of Romanian identity also came to the fore during the Second World War, when Romania was ruled by Marshall Ion Antonescu and his nationalist Iron Guard movement.

One important thing that Romania has going for it today is the fact that it did not have a strong communist tradition, as the Communist party in interwar Romania were very weak, with minimal popular support and no strong roots amongst the Romanian public (Roper, 2000: 4; Rosapepe, 2002: 168). In Romania, a large reason why the communists came to power was because Soviet troops had "liberated" Romania, which allowed the Romanian Communists to eventually consolidate power through the increasing control of media, security services, and

⁴⁰ See (Gallagher, 1997, 1999; Huntington, 1993: 30)

⁴¹ Roper and Fesnic point out that the people of Transylvania tend to be more liberal in political orientation, and did not give much support ever to Iliescu and the PDSR (2003: 124-126).

through forceful Stalinization of the political economy (Roper, 2000: 19). Furthermore, as a result of communism being imposed in Romania largely because of the Soviet occupation, the Romanian Communists eventually found it advantageous to turn on the Soviets and Russians to consolidate their legitimacy. This was facilitated by bad blood leftover from the Second World War, considering that Romania fought with the Germans against the Soviets, and also because of the Soviet annexation of Moldova. As a result, there developed a nationalist Romanian version of communism, which was particularly taken to full lengths under the rule of Ceausescu from the 1960s to 1989 (Năstase, 2002: 60-61).

The Romanian national version of communism, which remained hard-lined and Stalinist in nature, was also built on Romania's Balkan heritage of authoritarian, paternalistic rule, where illiberal traditions, arbitrary decisions and disregard for the rule of law reigned supreme (Gallagher, 1997: 67; Siani-Davies, 2005: 13-14). Although adopting a nationalistic version of communism, its Stalinist nature of controlling all aspects of politics economics and society had lasting impressions on Romania identity. While communist support in Romania did not originally have strong roots, nearly fifty years of Stalinist communist rule and its connected economic industrial development policies helped create a sizeable constituency of support in Romania society that favoured command style macroeconomic policies. This is because Ceausescu's policies of industrialization and urbanization helped to create a communist middle class to administer these programs, and manage and be employed in these state-owned enterprises. (Gallagher, 1997: 72; Veiga, 1997: 59). In effect, the communist regime that ruled Romania and developed it in a Stalinist industrial fashion, was able to use traditional identity values and ideas present in Romanian society to build a core group in favour of such policy preferences, where one had not previously existed. It has been this group that has been the most vocal against reforms.

At the same time of creating a core communist constituency, Ceausescu also brutally crushed virtually all independent civil society groups, and political parties in Romania (Năstase, 2002: 56). As a result, the brutal nature of over 40 years of Communist rule took a great toll on the inhibited the maturation of the Western aspects of Romanian identity, while at the same time promoting the Balkan illiberal aspects of Romanian identity, such as authoritarianism, paternalism, arbitrariness and disregard for the rule of law. This is probably a reason why Romania is often described today as being "burdened with backward political culture" (Chiriac, 2001:128; Weiner, 1997: see also Weiner, 1997) Furthermore, because independent civil society groups and political parties had been so thoroughly repressed, even right up until the end of Ceausescu's rule, this probably helps to explain why "former" communists, such as Iliescu and the PDSR were able to consolidate power after 1989. Consequently, it is a fact today that the history of the communist legacy has left Romanian identity split in terms of ideological preferences in regards to policies relating to the political economy.⁴²

One positive legacy for Romania's future in its prospects for moving Westward was that the communist regime, particularly under Ceausescu, promoted a version of Romanian history that was largely antagonistic in outlook towards Russia. This built and reinforced anti-Russian sentiment that was already prevalent in Romanian identity. This is because Romanians generally see Russia as their "other" and as an enemy, due to historical experiences during the Second World War, the imposition of communism that was facilitated by the Soviet occupation after 1945, and issues over the former Romanian province of Moldova, which was annexed by the Soviet Union in

⁴² This divide over the historical legacy of communism, which split Romanian identity was witnessed recently when President Basescu unveiled an extensive report that "denounced the former communist regime as illegal and criminal" (Radio Free Europe/Radio Liberty, 2006).

1939. As a result, “for most Romanians Russia remains a ‘pole of repulsion’ owing to long-term bids to stifle Romanian independence” (Gallagher, 2001: 411). Therefore, in contrast to Ukraine, being anti-reform and neo-communist in policy preference does not mean that one is pro-Russian. Thus, while efforts at monetary and macroeconomic reform have been gradual, the only game in town for Romania following the end of the Cold War was that of a return to Europe.

Romania is assisted in by the fact that there are Western values present in Romanian identity. Although not as pervasive as in Estonia or Czech Republic, the presence of these Western values and influences are nonetheless an important step to build on to help Romania fully become a cooperative, constructive and contributing member of the EU. Considering that Romania lived for nearly fifty years under one of the most brutal communist regimes in Eastern Europe, it can be argued today that Romania has made significant progress thus far in terms of political and economic transition and monetary policy reform to have been able to accede to the EU. Moreover, as the last vestiges of the communist era are gradually being torn away, Romanian’s membership in the EU will only help to further solidify the progress that has already been made to allow Romania to eventually integrate into Europe politically, economically and culturally.

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