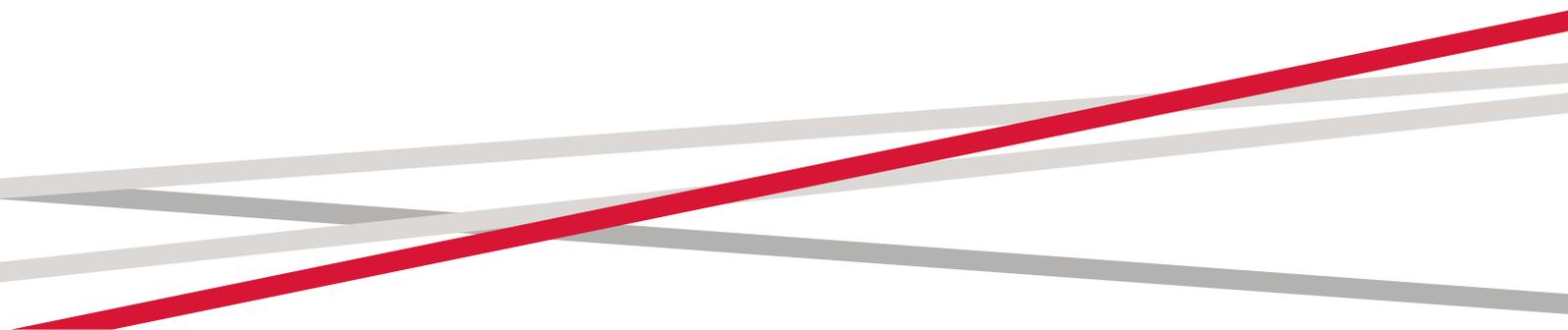


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## **The Political Economics of Long Run Development in Eastern Europe: Insights from the 2019 SITE Academic Conference**

Thirty years after the fall of communism, many assume that the economic transition of Eastern Europe and the former Soviet States towards a system of market economy is complete. But the region faces new challenges, of both economic and political kind, which renders a thorough understanding the past even more important. This policy brief is based on the scientific contributions presented at the 7th SITE Academic Conference held at the Stockholm School of Economics from December 16th to December 17th, 2019. Organized by the Stockholm Institute of Transition Economics (SITE), the conference brought together academics from all over Europe and the United States to share and discuss their research on economic and political development in Eastern Europe.



## The Imperial and Soviet Periods

In the first section of the conference, papers with a focus on the long-term history of Eastern Europe and its implications for more recent events were presented. **Marvin Suesse** presented his research on how the Russian State Bank financed Tsarist Russia's belated industrialization, a question that had been discussed by historians, but never thoroughly analyzed quantitatively. By geo-coding historical manufacturing censuses around the turn of the century and using distance between bank branches and factory location, the causal impact of the expansion of the State Bank is estimated, revealing large effects on firm revenues and productivity. These effects are largest in areas where alternative means of financing were least available and where human capital was more abundant.

**Natalya Naumenko** presented her findings on the economic consequences of the 1933 Soviet famine, which in terms of casualties was extremely devastating. She uses the meteorological conditions a year earlier as an instrumental variable and finds that the famine, which was mostly a rural phenomenon, had a persistent negative effect on the urban population while the rural population recovered relatively quickly.

**Gerhard Toews** discussed the long-term consequences on regional development of the displacement of an estimated 3 million "enemies of the people", political prisoners typically belonging to the elite of the society, into the gulags in the early years of the Soviet Union. Using archival data, he has constructed a large database describing the gulag population in terms of the shares of "enemies" relative to other prisoners and

taking into account their socio-economic characteristics i.e. the much higher levels of education of the former group. Exploiting variation within gulags, the results suggest that a historically higher density of "enemies" means higher economic prosperity today as measured by nightlight intensity.

Taking another angle, **Christian Ochsner** investigated the effects of the Red Army's occupation on post-war Europe, using the demarcation line crossing the Austrian state of Styria as a natural experiment. His conclusion is that even the temporary occupation affected the region's long-term development, the main channel being age-specific migration.

Finally, **Andreas Stegman** offered an analysis of the effects of the 1972 East German Extended Visitors Program. The program reduced travel restrictions for West German visitors traveling to certain districts of East Germany. Using a geographic regression discontinuity design comparing similar districts with and without the program, he shows that included districts indeed received much more visits from West Germany and that their citizens were more likely to protest against the Communist government and less likely to vote for the ruling party. This suggests that face-to-face interaction can influence beliefs and attitudes in non-democratic regimes, in turn influencing individual behavior and societal outcomes during transition.

## Corruption, Conflict and Public Institutions

Another topic of the conference was the current role of corruption, conflict, electoral fraud and public sector effectiveness for the region. **Scott Gehlbach** presented his most recent research on



the ownership patterns and strategies of Ukrainian oligarchs before and after the Orange revolution. By mapping oligarchs to changing political leadership, he shows how firm owners in Ukraine take actions to protect their property depending on their connections with the current government. He finds that obfuscation of ownership behind holding companies and complicated structures is a potentially valuable strategy in this environment in general but becomes particularly important when an oligarch loses direct connections to the ruling regime.

Likewise, **Timothy Frye** analyzed election subversion by employers in Russia, Argentina, Venezuela, Turkey and Nigeria. He finds that in Russia, public sector employers and especially state-owned firms are more likely to influence their employees' decision to vote than private companies. Furthermore, work place mobilization by employers in Russia is clearly negatively associated with the freedom of the press. Election subversion is more likely to be successful when the degree of dependence of the employee is high and the employer's potential threats are credible. Among Russian firm officials, the most frequently named motivations for them to practice election subversion are the desire to improve their relationship with the authority and the intention to help their party.

**Michal Myck** studied the impact of the transition experience on economic development around the Polish-German border. Polish communities close to the border were economically backward at the beginning of the transition but could potentially benefit from trade opportunities with an opening towards the West. Using similar methods to those of Stegman above, and nightlight intensity as a

measure of economic activity as for instance Toews, Myck finds significant evidence for economic convergence both between Germany and Poland, and between Polish border regions and the rest of Poland.

**Vasily Korovkin** presented his research on the impact of the conflict in Eastern Ukraine on trade in non-conflict areas in Ukraine, hypothesizing that the conflict may cause a trade diversion away from Russia, particularly so in areas with many ethnic Ukrainians. Using variation in the share of the Russian speaking population at the county level as well as detailed firm level export and import data, he finds that the decrease in trade with Russia is negatively correlated with the share of the Russian speaking population. Potential mechanisms include a decline in trust at the firm level and changes in local attitudes including consumer boycotts.

Finally, **Tetyana Tyshchuk** analyzed the effects of a Ukrainian public sector reform on civil servants' capacity and autonomy. The reform created public policy directorates parallel to the regular bureaucracy in 10 ministries. Members of the directorates were hired based on a different procedure and different merits relative to regular public servants and received significantly higher salaries. Tyshchuk finds that the better paid civil servants indeed score higher on many, though not all, indicators of capacity and autonomy.

## Information, Populism and Authoritarianism Today

The final important theme of the conference was the role of information and media, old and new, in today's politics. In the event's first keynote speech,



**Ruben Enikolopov** analyzed the political effects of the Internet and social media whose low entry barriers and reliance on user-generated content make them decisively different from traditional media channels. On the one hand, this represents a chance for opposition leaders and whistleblowers to make their voice heard and may improve government accountability. On the other, these media may also become a platform for extremists. Enikolopov presented some of his work analyzing to what extent social media has contributed to fighting corruption in Russia. Using the timings of blog posts by the famous Russian opposition leader Alexei Navalny on corporate governance violations in state-owned companies, he shows that revelations resulted in an immediate drop in the price of the traded shares of the respective companies. He also finds evidence suggesting that Navalny's blog posts resulted in management changes in these companies. In related papers, he exploits the spread of VKontakte (VK), the Russian version of Facebook, to better understand the influence of social networks on political activism, voting and the occurrence of hate crime. He finds that the spread of VK is indeed causally related to political protests, though not because it nurtures opposition to the government, but rather because it facilitates protest coordination. With respect to hate crime, he finds that social media only has an effect in areas where it falls on fertile grounds and where there already are high levels of nationalism. The tentative conclusion is that in Russia – as in Western countries – social media seems to have increased political polarization.

On a similar topic but taking a more theoretical approach, **Galina Zudenkova** investigated the link

between information and communication technologies (ICT), regime contestation and censorship. In a game theoretical framework, where citizens use ICT both to learn about the competency of the government and to coordinate protests, governments can use different tools to censor information to increase their chances of survival. Zudenkova finds that less competent regimes are more likely to censor coordination, whereas intermediate regimes are more likely to focus on censoring content. These theoretical predictions are then tested using country level data.

The targeted use of information has also played a key role in Putin's Russia according to **Daniel Treisman**. In his keynote speech, he argued that while the 20th century dictatorships were mainly based on violence and ideology, the 21st century has been characterized by a sizeable shift towards what he calls "informational autocracy". Constructing a dataset on the methods used by authoritarian regimes to maintain power between 1946 and 2015, he shows that the use of torture and violence peaked among those dictators who took power in the 1980s and has declined since. Furthermore, he highlights a remarkable shift from topics of violence towards topics of economic competency in dictators' speeches. However, Treisman finds that by instrumentalizing information, dictators fool the public "but not the elite". In democratic regimes, those with tertiary education tend to rate their political leaders higher than people without tertiary education. In the new informational authoritarian regime, the opposite seems to be the case. According to Treisman, this is because the "informed elite" has a better understanding of the political reality in places



where the media is censored, Putin's Russia being a good example. Treisman concluded that this new model of authoritarianism has become the prevalent model outside of Europe and today also has its advocates inside the European Union.

The conference ended with a final keynote speech by [Sergei Guriev](#) on the political economy of populism. Using existing definitions, he first confirmed that Europe has seen a rise in right-wing populism in the last 20 years. Secular trends, such as globalization and new communication technology, but also the recent global financial crisis, are driving factors behind the rise of populist parties. For instance, analyzing regional variation in voting patterns suggests that the Brexit vote was primarily driven by economic motives rather than by anti-immigrant sentiments. Ironically, though, most evidence suggests that populist governments have a below-average economic performance once in office, the US and Poland being notable exceptions. A key point of Guriev's presentation was that populism seems to be a good method to obtain power, but, once in power, populists tend to be less successful in promoting citizen welfare. These findings seem to be of high importance given the increasing public support for populist parties around the world and in parts of Eastern Europe

The conference was very well received and on behalf of SITE, the authors would like to express their appreciation to all speakers and participants for sharing their knowledge and to Riksbankens

Jubileumsfond for financial support. For those interested to learn more about the papers summarized very briefly above, please visit the [conference website](#) and the presenters' websites as indicated in the text and here below.

## Speakers at the Conference

[Andreas Stegman](#), briq - Institute on Behavior and Inequality

[Christian Ochsner](#), CERGE-EI and University of Zurich

[Daniel Treisman](#), University of California, Los Angeles

[Galina Zudenkova](#), TU Dortmund University

[Gerhard Toews](#), New Economic School Moscow

[Marvin Suesse](#), Trinity College

[Michal Myck](#), CenEA

[Natalya Naumenko](#), George Mason University

[Ruben Enikolopov](#), New Economic School Moscow

[Scott Gehlbach](#), University of Chicago

[Sergei Guriev](#), Sciences Po Paris

[Tetyana Tyshchuk](#), Kyiv School of Economics

[Timothy Frye](#), Columbia University

[Vasily Korovkin](#), CERGE-EI





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