

## CONFERENCES

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# Governance, Markets and Institutions: Russia and Germany Compared

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### Abstract

The Summer School “Governance, Markets and Institutions: Russia and Germany Compared” was held from September 27 to October 10, 2015 under the coordination of the Institute for East European Studies, Free University of Berlin (Berlin) with the participation of Hertie School of Governance (Berlin), German Institute for Economic Research (Berlin), Higher School of Economics (Moscow) and European University at St. Petersburg (St. Petersburg). The Volkswagen Foundation (Volkswagen Stiftung) provided the Summer School with necessary financial support.

Around thirty doctoral students and postdoctoral scholars (both EU and non-EU) from a variety of disciplines including sociology, political science, economics, social anthropology, law, history and geography took part in this academic event. In addition, eight Russian MA students from social and political sciences were admitted as participants with special support from the Higher School of Economics.

The keynote speakers and lecturers from the Higher School of Economics (Moscow) were Alexander Chepurenskiy, Victoria Antonova, Fuad Aleskerov, Lilli DiPuppo, Andrei Melville, Yuval Weber, Andrei Yakovlev, Vladimir Zuev, Alexey Zakharov and Christopher Gerry. Nikita Lomagin presented his research on behalf of the European University at St. Petersburg (St. Petersburg). Among the participants from the Free University of Berlin (Berlin) were Katharina Bluhm, Carsten Schröder, Sabine Kropp, Tanja Börzel, Klaus Hoffmann-Holland, Philipp Engler, Klaus Segbers and Aron Buzogany. A number of scientists and researchers from other universities also took part in this academic event, including Klaus Desmet (Southern Methodist University, Texas), Volker Schneider (University of Konstanz, Konstanz), Nikolaus Wolf (Humboldt University, Berlin), Panu Poutvaara (Ludwig Maximilian University of Munich, Munich), David Woodruff (London School of Economics and Political Science, London).

**Keywords:** transition economies; German-Russian relationship; governance; financial system; informal entrepreneurship; inequality and cultural diversity; inclusive organizational culture; informal and formal institutions.

## Introduction

The Institute for East European Studies, Free University of Berlin hosted the Summer School “Governance, Markets and Institutions: Russia and Germany Compared” during September 27 — October 10, 2015. Theodor Grigoriadis (Assistant Professor of Economics, Institute for East-European Studies, Free University of Berlin, Berlin) and Maria Polugodina (Research Fellow, Institute for East-European Studies, Free University of Berlin, Berlin) organized the summer school. Given the increasing interest in exploring causes of institutional and structural varieties of capitalism in advanced and transition economies, this Summer School aimed at fostering a network of scholars and experts to focus on the German-Russian comparison. Research topics included the peculiarities of German-Russian relations from both economic and socio-political points of view, governance, policy and financial system issues, informal entrepreneurship, the problem of inequality and cultural diversity, inclusive organizational culture, and so on. Researchers from a number of renowned German and Russian universities facilitated a discussion of innovative qualitative and quantitative research methods, including causal inference in the social sciences, field and lab experiments, and contributions to qualitative and mixed methods. The program comprised 80 academic hours of intensive work, combining different study formats (group work, workshops, lectures), meetings with experts and cultural events. During the last day of the Summer School, the participants presented their own research proposals developed in international multidisciplinary teams. Visits to Berlin research centers and institutions such as the Social Science Research Center Berlin, the German Institute for Economic Research, and the Hertie School of Governance illustrated comparative advantages of the Berlin-Brandenburg area for advanced social scientific inquiry. In addition, cultural events provided participants from abroad with a broader perspective on German history and society.

Summer School participants (doctoral students and postdoctoral scholars, but also some MA students) had the opportunity to improve their knowledge and skills in the sphere of institutional and structural changes, informality, and contemporary trends in modern economies through the lenses of social comparison research. A typical day of the summer school began with keynote presentations and lectures that were followed by open discussions and group work. The applied analysis, stimulating interactive academic environment and opportunity to enrich professional skills while working in interdisciplinary multilevel groups made the Summer School a worthwhile experience.

Due to the variety of topics that were explored during the Summer School, this review mentions only a few subjects at the thematic core of the program. First, this review mentions the question of German-Russian relations in the past, present and future from both economic and socio-political points of view. Second, it discusses the topics of governance, policy and financial systems. Third, special attention is paid to the different forms of informal entrepreneurship in Russia. Fourth, this review examines the sociological topics of inequality, diversity and culture. Finally, this review highlights the subject of inclusive organizational culture within the context of the professionalization of social workers, taking into consideration the interconnection between formal and informal institutional practices.

## German-Russian Relations: From the Past to the Present and towards Possible Future

Since the Summer School was primarily focused on a comparison of Germany and Russia from the point of view of institutional and structural changes in the economy, the first part of the course was organized around socio-political relations of Germany and Russia as well as the ideological influence of the Western countries on Russia in a broad sense.

Approaching the problem of German-Russian relations from the historical point of view, T. Grigoriadis (Free University of Berlin) in his presentation “Russian Revolution and the Soft Budget Constraint” examined the role of the West in the economic choices made by Russia from 1905 to 1990. He paid a special attention

to the consequences that the specific structure of the financial system (centralized or decentralized) has on social and economic inequality. In his research, Grigoriadis tried to answer as well the question of how ideas of gradualism and shock therapy can explain economic reforms and how they contributed to the revolutions of 1905 and 1917 in Russia.

Based on an extensive review of the Russian and German economic literature from the 1960s to the 2000s, as well as historical evidence of the financial system's development, and industrialization in Russia during the second half of the nineteenth century linked with corresponding economic policies, Grigoriadis presented his own mathematical model explaining the association between the type of financial system and the rise of inequality in the first half of the twentieth century and the revolutions of 1905 and 1917.

At first, he introduced the idea that the choice between gradualism and shock therapy has a particular significance in the context of individual and aggregate uncertainty. Grigoriadis likewise observed that fiscal decentralization increases a government's opportunity cost for providing soft budget constraints, which often was the reason for Russia choosing a gradual policy instead of shock therapy. However, as Grigoriadis claimed, such a gradual economic choice had to be based on soft budget constraints and should be integrated into a highly centralized financial system. In addition to the importance of the policy of industrialization and securitization of liquidity undertaken by the Russian government, Grigoriadis emphasized the positive effect of the Russian-German relationship in the early nineteenth century and in particular of the German joint-stock credit banks in Russia. Grigoriadis concluded that active industrialization and a centralized financial system indeed may increase inequality and the propensity for revolution accompanied by elite repression. Grigoriadis suggested that his model could be seen as a starting point for a complex study of reform, industrialization and revolution.

K. Sebgers (Free University of Berlin) focused his research "Institutional and Ideological Foundations of an Alienation: German-Russian Relations in Crisis" on the main causes for the contemporary deterioration in relations between Germany and Russia in the context of broader Russian-Western interactions. Sebgers defined five different levels of this alienation: structural, institutional, governmental, societal and individual.

Considering the structural level of anarchy and polarities, Sebgers claimed that rule violations in Russia in 2008 and 2014 were not mere geopolitical actions but anti-Western reactions. As for the institutional level, Sebgers suggested that a general enlargement fatigue and the establishment of new defensive structures are the main challenges to be overcome by the European Union in the near future. According to Sebgers, the demonstrations and civil unrest in Ukraine in 2013–2014 were influenced by the double pressure of Western and Russian leadership. As for the governmental and societal levels, Sebgers evaluated the weaknesses of the Russian state based on competing groups and interests and structural non-sustainable characteristics of the economy, but also on demography, health, education and infrastructure systems, as well as on illegal policies of the Russian government. Finally, on the individual level Sebgers proposed to analyze the personal intentions of the political elites in closer relationship to the broader social, economic and political situation in the country.

Sebgers concluded by highlighting that in Western countries Russia is often pictured as a weak and insecure country which is not really the case. According to Sebgers, one of the ways to overcome those prejudices is a gradual reconstruction and redevelopment of Russian-German relations including 're-engaging.'

## **Governance and Financial Systems: Analysis of Policy Issues**

Political problems and governmental issues received a special attention during the Summer School. Such questions as the role of European Union in the global economic and political issues, financial system and its impact on global financial stability were elaborated by several lecturers.

T. Börzel (Free University of Berlin) in her presentation “Good Governance and Bad Neighbours? The Limits of Transformative Power Europe” paid attention to the geopolitics of the European neighborhood and EU foreign policy as it varies by the economic, geographic, cultural and political proximity of different countries. Börzel presented a range of tools used by the EU in order to influence its neighbors such as soft incentives (e.g. simplified visa regulation), the persuasion of political dialogue, capacity building, and coercion through military and civilian missions. Börzel’s main finding suggests that some of the EU’s incentives are inconsistent and have little impact on external capacity-building for effective governance. According to Börzel, this situation leads to a more stabilizing policy instead of a more transformative one and this stabilizing policy includes encouraging political liberalization, consolidating hybrid regimes and supporting democracies.

D. Woodruff (London School of Economics and Political Science) explored the impact of the European financial system and its specific governance on global financial stability in his research on “Eurozone Governance and Global Financial Stability.” By reminding the audience that financial exchanges are based on shared faith, Woodruff introduced the necessity of regulative mechanisms and institutions to promote, protect and repair this faith in order to allow financial prosperity and stability. Woodruff particularly highlighted the leading role of Germany and its specific variant of neo-liberalism (‘ordo-liberalism’<sup>1</sup>) which creates conditions for the market economy and uses market panic as a major tool of influence (since market interest rates can play a role in pushing governments towards reforms and vice-versa).

P. Engler (Free University of Berlin) also focused his presentation, “Fiscal Devaluation in the Monetary Union”, on the European Union’s financial stability but within the specific scope of fiscal devaluation. His research examines the real effective exchange rate and its impact on competitiveness and the ratio exports/imports. This topic was highlighted by the massive trade deficits within the Eurozone and the consequences of the debt crisis over the whole Union’s spending. Engler explained how the real exchange rate could be reduced by fiscal rather than monetary instruments, such as the reduction of social contribution rate and the increase of the value added tax. Finally, Engler pointed out the fact that exports have limited effect, but the nominal wage rigidity still remains the very best element for effectiveness.

## Informal Entrepreneurship in Russia: Forms, Reasons and Types

The question of informal entrepreneurial activity under transition recently has attracted attention from Russian and German social scientists. A. Chepurenko (Higher School of Economics) in his research “Informal Entrepreneurship under Transition: Forms, Reasons and Types” discussed the subject of informal entrepreneurial activity in the context of economic and political transition in Russia.

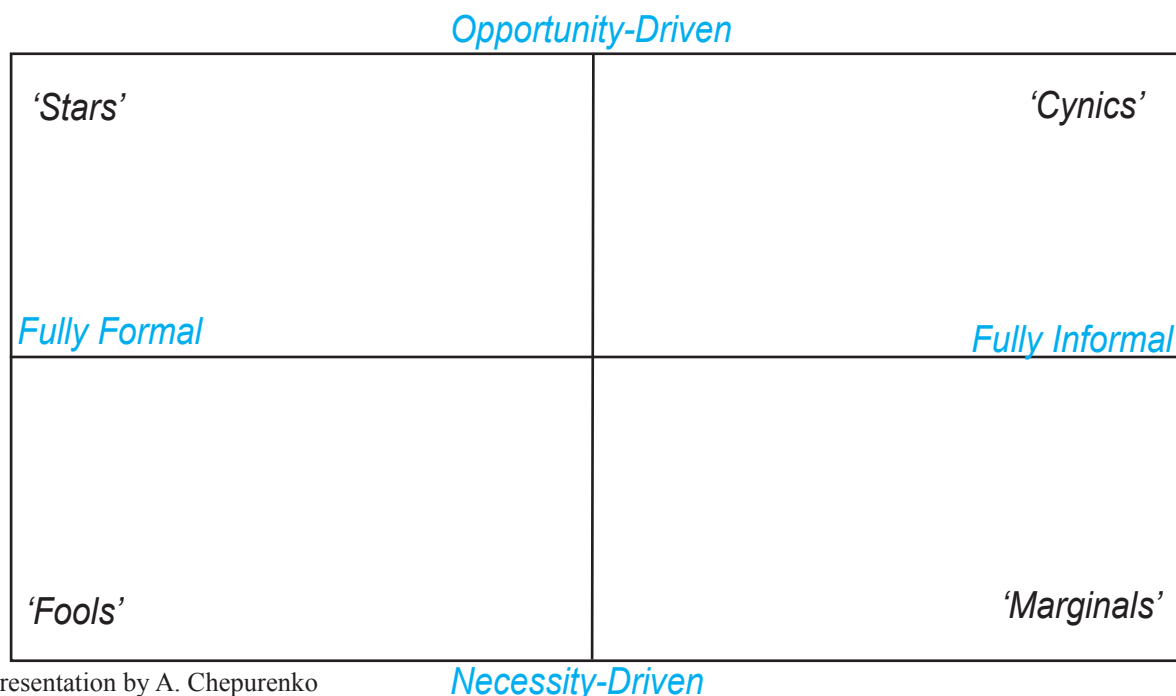
Citing extensive literature on embedded informal entrepreneurship (modernization, structuralist, neo-liberal and post-structuralist perspectives), Chepurenko raised the question of multiple definitions of informal entrepreneurial activity, often linked with the informal economy, as well as the problem of the considerable variety of forms and practices covered by this general term. Chepurenko highlighted some common characteristics within informal entrepreneurship such as off-the-book transactions<sup>2</sup> with providers and customers, the absence of legal written contracts with employees, and informal forms of financing. Speaking about specifics of entrepreneurship under transition in Russia, Chepurenko made the difference between productive, unproductive, and destructive entrepreneurship. Importantly, in environments with ‘free access order’ there are more opportunities for productive entrepreneurship, than in environments with ‘limited access order.’<sup>3</sup> Chepurenko

<sup>1</sup> Ordoliberalism is the German variant of social liberalism that emphasizes the need for the state to ensure that the free market produces results close to its theoretical potential [Ptak 2009: 124–125].

<sup>2</sup> “Off-the-book” is a payment or receipt of money for which no official record is kept.

<sup>3</sup> “Limited access orders solve the problem of containing violence by political manipulation of the economic system to generate rents by limiting entry to provide social stability and order”, while “open access orders sustain social order through political and economic competition rather than rent-creation” [North, Wallis, Weingast 2006: 4].

proposed his own typology of entrepreneurship in fragile environments by motivation and level of informality and distinguished the following types: ‘Stars’, ‘Cynics’, ‘Fools’ and ‘Marginals’ (See Fig. 1).



Source: Presentation by A. Chepureenko

**Fig. 1.** Typology of Entrepreneurship in Fragile Environments by Motivation and Level of Informality

In the final part of his presentation, Chepureenko paid attention to several challenging questions concerning informal entrepreneurship. Should informal entrepreneurial activity be treated as a danger or as an institutional trap under a fragile economic environment? Which are the most appropriate research strategies to cope with informal entrepreneurship in transitional environments? Which concepts and paradigms should be used to explain the nature and sustainability of informal entrepreneurial activity in Russia and similar economies and societies? According to Chepureenko, informality is considered to be an institutional trap for most entrepreneurs under ‘limited access order’ where there is predominantly unproductive entrepreneurship. For this reason, we need a different approach from the state to different forms of informal entrepreneurship.

## Inequality, Diversity and Culture

A number of researchers focused their work on inequality, diversity, and cultural issues within the European context.

K. Desmet (Southern Methodist University) in his work “Culture, Ethnicity and Diversity” addressed the problems of ethnic cleavages associated with deep differences in preferences, norms, values and attitudes within a changing society. Looking for a link between ethnicity and culture, Desmet underlined the assumption according to which people usually agree within groups and disagree across groups. According to Desmet, this topic is becoming extremely relevant in the context of massive migration, the politics of multiculturalism, the rise of inequality and the overall breakdown of social consensus.

Using individual-level survey data to explore the relations between ethnolinguistic identity and culture (World Values Survey, 1981–2008, 74 countries<sup>4</sup>) Desmet made a clear distinction between ethnic diversity and cul-

<sup>4</sup> The World Values Survey (WVS) is a global research project that explores people’s values and beliefs, how they change over time and what social and political impact they have. It is carried out by a worldwide network of social scientists who, since 1981, have conducted representative national surveys in almost 100 countries.



tural diversity, pointing out that culture is the main vector of traits reflecting individual values and norms. His research aimed at making clearer the determinacy of identity over culture, taking into account regions. Besides, as Desmet noted, ethnic fractionalization cannot be taken as a proxy for cultural diversity, making a reference to theoretical debates between constructivism and primordialism.

C. Schröder (Free University of Berlin) in his turn presented his research on “European-Wide Inequality in Times of the Financial Crisis.” Examining the question of how disparities in material living standards in Europe have changed since the Great Recession, Schroder used cross-country micro-level data from EU official statistics on income and living conditions from 2005 to 2012. Schröder claims that the tendency to consider the EU as a single country while applying a pooled distribution of material living ignores the important gaps between countries on the welfare dimension. According to Schröder, the recent financial and economic crisis in Europe raises concerns about socioeconomic disparities in the EU and especially in its common currency area. Although the EU claims to be working towards convergence and social cohesion among its member states, in public perception, the countries of the EU are growing further apart.

### **Inclusive Organizational Culture of Social Services in Russia: Formal Rules vs. Informal Practices**

V. Antonova (Higher School of Economics) presented her research “Inclusive Organizational Culture of Social Services in Russia: Formal Rules vs. Informal Practices” on inclusive organizational culture in the context of Russian social services with a special accent on the interconnection between formal and informal institutional practices. Antonova focused on the gap between wide-spread formal regulations and common informal practices and questioned the respective roles of both operative systems in society. The study was based on extensive qualitative data: a case study of two social service organizations in a region in Povolzhye<sup>5</sup> and semi-structured interviews with Russian experts in the field of social work in the cities of Moscow, Saratov, Arkhangelsk, Tomsk and Ekaterinburg.

Antonova pointed out the fact that informal rules of the social work occupation are frequently derived from formal norms and these informal rules produce informal practices which might sometimes be contrary to the formal perceptions of the social work as an occupation.

Antonova paid special attention to the fact that the legitimization of informal practices in social work is being currently redefined: in order to be legitimate an informal practice has to be effective in terms of helping to solve problems and to meet the needs of the client. However, in many cases in order to become legitimate and effective, an informal practice ought to be developed and implemented by a social worker with a high level of innovative, critical thinking and courage, which, Antonova argues, is not expected in the public stereotype of this type of worker. In Antonova's opinion, informal practices are being institutionalized and becoming formal rules and norms in social work. Case study findings and results of interviews with social work specialists in five Russian regions suggested that some social service organizations in Russia are taking important steps towards developing an inclusive culture of their services, but these are being taken primarily at the micro-level of social policy.

Antonova concluded that the institutional and legal framework in Russia does not provide public social service organizations with coherent policies and legislation. In order to formalize their practices and programs and develop them further, local social service organizations require macro-policy developments which support the establishment of an inclusive culture in all public services.

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<sup>5</sup> Povolzhye (Volga Region) is a historical region in Russia that encompasses territories adjacent to the flow of the Volga River.

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Certainly the Summer School “Governance, Markets and Institutions: Russia and Germany Compared” was very fruitful for its participants in terms of expanding their knowledge about essential matters of governance, markets, formal and informal institutions from theoretical, methodological and empirical points of view. Furthermore, this academic event may also be considered as an important step towards the further cooperation between the Free University of Berlin and the Higher School of Economics.

The Summer School fostered contacts and stimulated exchanges between young scholars from Russia, Germany, and other countries, as well as introduced some possibilities for postgraduate study to a new generation of highly qualified young researchers from around the world. Everyone present considered participation in this academic event to be an important step for the future development of their academic careers.

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