

Comparative Analysis of Informal Institutions
In the
Romanian Provinces of Transylvania and Moldavia

By

Andreea-Raluca Leru

Submitted to

Central European University

Department of Public Policy

In partial fulfillment of the requirements for the degree of Master of Public Policy

Supervisor: Professor Valentina Dimitrova-Grajzl

Budapest, Hungary

2009

Abstract

The current existing literature on institutional development in post-communist countries fails in providing scholars with a clear and correct picture on the influence socialist institutions have in shaping people's behavior, and implicitly the current economic development of post-communist countries. Therefore, the aim of this study is to fill the gap previously identified while investigating how proximity to former Soviet Union affects the institutional development of the Romanian provinces of Transylvania and Moldavia during contemporaneous times.

Before proceeding with investigating the premise previously stated, an econometric model had been estimated in which *trust* had been included as proxy for institutional development, while using *distance from Kiev to respondent* as proxy for geographical proximity to former Soviet Union together with *gender*, *age*, and *rural/urban environment* as explanatory variables. Accordingly, the multiple regression model previously estimated was expected to distinguish between higher levels of *trust* in the region of Transylvania and lower levels of *trust* in the region of Moldavia.

However, after empirically testing the econometric model estimated, the main hypothesis of the analysis according to which "the closer a region is to former Soviet Union, the more likely it is for the region to register lower levels of *trust* in people and in state's public institutions" was rejected. Contrastingly, the empirical analysis emphasized an inverse relation between *trust* and *distance from Kiev to respondent* than the one estimated. In conclusion, Transylvania is characterized by lower levels of trust, while Moldavia registers higher levels of trust in people and state's public institutions.

Acknowledgements

First, I offer my deepest gratitude to my supervisor Professor Valentina Dimitrova-Grajzl for her valuable suggestions, critique, and support, which proved to be of great help for the completion of my MA thesis.

In addition, special thanks and appreciation goes to Anca Simionca, Ph. D. candidate within the Department of Sociology and Social Anthropology, for her support and suggestions during the writing process of my MA thesis.

Last, but not least, I would like to thank the Department of Public Policy at Central European University in Budapest. I attribute the successful completion of my MA studies to their efforts and dedication.

Table of Contents

Abstract.....	i
Acknowledgements	ii
Table of Contents	iii
List of Figures and Tables	iv
List of Abbreviations	v
Introduction.....	1
Chapter 1: Theoretical Background	5
1.1 Culture and Economic Development.....	5
1.1.1 Definitions of Culture.....	5
1.1.2 What Is Economic Development?	6
1.1.3 The Linkage between Culture and Economic Development	7
1.2 History and Economic Development.....	8
1.3 Geography and Economic Development: Distance Matters!.....	9
Chapter 2: Regional Divergence in Romania	11
2.1 General Information.....	11
2.2 Where Is Divergence?.....	12
2.3 Communism “Worldwide”.....	14
2.3.1 Socialist Legacy in Romania	15
2.3.2 Communism in former Soviet Union	16
2.4 Causal Mechanism	18
Chapter 3: Empirical Analysis and Data	19
3.1 Data Selection.....	20
3.2 Variable Measurement	20
3.2.1 Choice of Variables.....	20
3.2.2 Econometric Model Estimation	21
3.4 Conclusions	30
Chapter 4: Practical Implications	33
Conclusions	36
Reference List	38

List of Figures and Tables

Figures

1. GDP per capita 2000 (EUR) by County in Romania 13

Tables

1. Transformation and recoding of historical region variable into output variable 23
2. Estimates and coefficients of the econometric model estimated 24
3. Correlation table of all independent variables included in the econometric model estimated 30

List of Abbreviations

SMEs	Small and Medium Enterprises
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
SLP	Socialist Labor Party
USSR	Union of Soviet Socialist Republics
POB	Public Opinion Barometer
SRI	Romanian Secret Service of Information

Introduction

Previous research on the topic of institutional development established that “the Ottoman and the Habsburg Empires have a significant effect on the current institutional quality of the SECE countries” (Dimitrova-Grajzl 2007, p. 539), while socialist legacy has no significant influence over the institutional development of these states (p. 539). Contrastingly, Bădescu and Sum (2005) consider that “throughout Eastern Europe, the communist legacy with varying degrees of severity had effects which were independent of any pre-communist conditions” (p. 118). In the same manner, Beck and Leaven (2005) argue that 40 years is a time-period large enough for the socialist system to consolidate and, consequently, for a society to internalize the communist regime’s characteristics that will later pose severe problems for the transition and contemporaneous period of the country.

However, the current existing literature fails in providing scholars with an exact mechanism of how socialist institutions influence and shape people’s behavior, and implicitly the current economic development of post-communist countries. Consequently, the aim of this study is to fill this gap in the literature and advance several practical implications that could diminish the interregional institutional disparities between the Romanian provinces of Transylvania and Moldavia.

Considering the above, the premise from which the subsequent study starts is that physical proximity to former USSR can result into a deficient institutional development of the regions situated in its vicinity. Hence, I posit that physical proximity to former Soviet Union during the contemporaneous period deepens the institutional gap between the Romanian provinces of Transylvania and Moldavia. Therefore, the objective of this paper is to establish if and how proximity to former Soviet Union contributes to the enlargement of the

institutional gap between Transylvania and Moldavia and identify possible practical solutions for diminishing interregional institutional disparities.

The present paper also advances the idea according to which there is an observed institutional and economic divergence between the Romanian provinces of Transylvania and Moldavia. Considering that institutions can influence the economic performance of a society and that Romania's institutional development is the product of historical legacies and path dependence, I have realized a comparative analysis of informal institutions between the historical regions of Transylvania and Moldavia, but with emphasis on a different causal mechanism. Therefore, I posited that institutional development disparities in Transylvania and Moldavia might be caused by different degrees of physical proximity to former Soviet Union, expecting geographical proximity to former Soviet Union to determine a faulty and vicious institutional development in the regions situated in its vicinity while affecting the economic development of the regions as well. Consequently, the main hypothesis of the paper implies that the closer a region is to former Soviet Union, the less likely it is for that region to be characterized by institutions favorable to development.

Considering the above, an empirical analysis was pursued within which *trust* was regressed against *distance from Kiev to respondent* in order to test the hypotheses of the investigation. However, the results of the empirical analysis did not confirm the relation estimated to exist between proximity to former Soviet Union and the regions' institutional development. Contrastingly, the influence of *distance from Kiev to respondent* over *trust* registered statistically significant results that emphasize the opposite direction of the way the causal mechanism works than the estimated one. Consequently, the closer the region is to former Soviet Union, the more likely is for that region to develop an increased level of trust in people and in state's public institutions.

Furthermore, this study succeeded in bringing added value to the existing literature in the field with regard to the influence of former socialist institutions over people's behavior and beliefs, implying the existence of accountability and transparency issues within the Romanian society that might affect the country's overall development. Additionally, the present paper advances possible ways to improve the level of accountability and transparency among citizens and state's institutions, by suggesting the introduction of institutional development options into the regional policies designed for downsizing the interregional economic divergence in Romania.

Last, but not least, although measures were taken in order to prevent the registration of biased estimates of the econometric model estimated, the results of the analysis cannot be generalized. The results of this study describe the case of the Romanian provinces of Transylvania and Moldavia with no direct or indirect inferences towards the cases of regions in other post-communist countries. Consequently, I encourage additional empirical studies to be performed on a larger number of cases, institutional variables, or a time series analysis to be realized with emphasis on institutional development in several post-communist countries. Considering the above, the present paper is structured into four chapters.

Chapter 1 places the paper in the existing literature, while presenting the necessary theoretical background for the empirical analysis to come. The aim of this chapter is to accommodate the reader with different definitions of culture and with existing debates and theoretical models that explain the link between culture and economic development, history and economic development, as well as geography and economic development in terms of institutional development.

Chapter 2 gives an overview on the historical, administrative and development division of regions in Romania, justifying the use of the historical division of regions in the analysis, while providing general information with regard to the historical process through

which the Romanian historical regions were formed. Moreover, subsections of this chapter discuss the observed interregional economic disparities between the Romanian regions of Transylvania and Moldavia, as well as the characteristics of the communist governance in Romania and in former Soviet Union, while debating on different causal mechanisms that could determine the existence of interregional disparities between the two Romanian regions.

Chapter 4 restates the premise from which the present study started, as well as the hypotheses of the present research. It discusses the method used for data selection and variable measurement, as well as the interpretation of data of the empirical analysis pursued in order to test the hypotheses of the present paper. Chapter 4 also includes practical implications with regard to the empirical data the analysis registered.

Conclusions round up the discussion on the influence of proximity to former Soviet Union over the institutional development of the Romanian provinces of Transylvania and Moldavia, while encouraging further empirical studies to approach the issue of institutional development, but from different perspectives.

Chapter 1: Theoretical Background

When it comes to examining the differences in development across countries and even across regions within one country, several specialists in the field of economics, sociology, history, and geography have reached the common conclusion according to which culture can make a difference (Landes 1998). Still, this is not the only factor that can influence a country's economic performance, as history and geography can also exert a considerable influence over economic development. As day-to-day activities and processes are more complex than meets the eye, the link between culture, history, geography, and economic development is worth investigating as it can reveal important patterns useful for the formulation and implementation of different policy scenarios with the goal of bridging the development gap between countries or regions of the same country.

1.1 Culture and Economic Development

1.1.1 Definitions of Culture

For decades, specialists in economics, sociology, history, and geography have attempted to define the concept of culture. In this sense, a widely used definition of culture comes from Hofstede (1984), who describes the cultural factor as being “the collective programming of the mind, which distinguishes the members of one category of people from another” (p. 51). In addition, Tabellini (2006) defines the concept of culture as being “a component of broadly defined institutions that explains why the same formal institutions often function so differently in different environments” (p. 2). Last, but not least, the anthropological perspective is not very different from other authors' views of culture¹, anthropologists linking culture to a “complex whole, which includes knowledge, belief, art,

¹ For further information on definitions of culture please see Damen (1987), and Banks and McGee (1989).

law, morals, custom, and any other capabilities and habits acquired by man as a member of society” (Taylor 1924, p. 1).

In conclusion, all the above-mentioned definitions emphasize a general accepted understanding of culture, according to which the cultural factor is the equivalent of informal institutions, such as norms, values, principles, rules, and beliefs that informally guide human behavior in the process of resolution. Accordingly, this definition is also the one with which the present paper operates.

1.1.2 What Is Economic Development?

The next necessary step in the debate regarding the linkage between culture and economic development is to shed light on the meaning of the concept of economic development that will be frequently used in the thesis.

As Grabowski et al. (2007) note, the concept of economic development started to be used and, consequently, to develop since 1930. Since then, the concept of economic growth has been often used as having the meaning of economic development, although specialists in economics claim that such an interpretation is wrong (Grabowski et al. 2007). While economic growth can be considered to be “a precondition or a necessary condition for economic development” (Grabowski et al. 2007, p. 6), economic development is a more extensive concept, which encompasses economic growth among other economic elements. In short, after decades of developments in the field of economics, the concept of economic development reached to mean the following:

(1) *self-sustaining growth*; (2) *structural changes in patterns of production*; (3) *technological upgrading*; (4) *social, political, and institutional modernization*; (5) *widespread in improvement in human conditions*².

To conclude, according to the sources, economic development is distinct from economic growth, the first concept also encompassing the issue of institutional development. In the light of these facts, the present paper concludes that there exists a causal relationship between institutional modernization and economic development, institutional development being considered a prerequisite for a successful economic development to take place.

1.1.3 The Linkage between Culture and Economic Development

The study of the link between culture and economic development started in 1958, when Banfield attempted to propose a cultural explanation for the developmental differences between Northern and Southern Italy (Tabellini 2009, p. 5). Banfield “attributes the slow economic growth in southern Italy to the excessive pursuit of narrow self-interest by people who have never learned to trust anything outside their family” (Hezel 2009, p N/A). Then, in 1959, Lipset advanced the theory according to which education can facilitate economic development, as it plays a very important role in institutional development, especially because economic development “requires specific cultural traits and an educated population” (Tabellini 2005, p. 2).

In 1998, Boettke concluded that culture is one of the elements that can decide which regulations fit better in certain environments and which not. He claims that “when culture and economic logic coincide, commercial experimentation flourishes and material progress lifts the masses of people from subsistence” (p. 13).

In 2000, Grondona designed a “cultural typology of economic development” (p. 44), admitting that cultural factors are indispensable for the achievement of economic

² According to Adelman (2000) in Richard, Grabowski, Shamistha, Self, & Michael P., Shields. 2007. *Economic Development. A Regional, Institutional, and Historical Approach*. London, England: M.E. Sharpe, p. 6.

development. His motivation for such a statement stems from the belief that “development or underdevelopment are not imposed from outside on a society; rather it is the society itself that has chosen development or underdevelopment” (Grondona 2000, p. 47). Last, but not least, Tabellini (2006) acknowledges the importance of culture for development, as well as the positive effect that certain cultural features can have over the economic performance of a country.

In conclusion, according to the above-mentioned sources, there exists a causal link between certain cultural features and economic development. Cultural traits such as a low level of trust in people or a narrow self-interest can slow down or even prevent a country from achieving economic development (Grondona 2000). As Grondona (2000) notes, such cultural features are considered to be resistant to economic development, whereas informal institutions such as a high level of trust in people, a low level of perceived corruption or education in the form of innovation can favor a country’s economic development by making it more open to change in all domains of activity. In short, “social attitudes and values have the decisive say on what economies will succeed and which will fail” (Hezel 2009, p. N/A).

1.2 History and Economic Development

Culture is not the only factor that can influence the economic performance of a nation, as history can also exert an important influence over economic development. The causal link between history and economic development is not new, as the topic was first debated in 1930 by Max Weber when he launched the thought according to which “the Protestant Reformation was instrumental in facilitating the rise of industrial capitalism in Western Europe” (Nunn 2009, p.20).

In the past years, this issue has met a serious “surge” (Nunn 2009, p. 25), as specialists in economics, history and sociology manifest a great interest in the link between history and

economic development. A representative figure of this group is Tabellini (2006), who claims that the “cultural legacy of history is an important determinant of current economic performance” (p. 26). Additionally, he presents the causal mechanism through which the previous-mentioned relationship takes place and according to which the historical component shapes informal institutions, which in turn influence the economic development of countries, making nations resistant or favorable to change (Tabellini 2006). In this sense, “specific indicators of culture, that can be interpreted either as social norms or as individual values, are correlated both with historical patterns and with current economic development” (Tabellini 2006, p. 3). More recently, Nunn (2009) among a long list of scholars claims that historical events have a long-lasting impact on current economic development, the most often used channels of influence being “institutions, culture, knowledge and technology, movements between multiple equilibria” (p. N/A).

To conclude, according to the above-mentioned sources, history does have an impact on economic development by influencing the institutional development of the country, making its society less or more open to innovation and change in general.

1.3 Geography and Economic Development: Distance Matters!

As it has been demonstrated so far, the concept of economic development is much more complex than meets the eye, encompassing important economic and non-economic components such as production, technology, growth, human capital, and political, social and cultural elements. Consequently, its diverse composition suggests the existence of several variables, whose parameters can influence negatively or positively the path of economic development in a society. Beside the causal links between history, culture, and economic development that have been discussed so far, geography can leave a serious imprint on economic development as well.

In 2001, Ghemawat developed a tool kit meant to raise the awareness of companies interested in foreign markets with regard to the way distance variables can affect trade. As Ghemawat (2001) notes, geographical distance refers to the spatial component of the concept, noting that 1% increase in physical distance represents a -1.1% decrease in international trade (p. 138). That is, the bigger the geographical distance is between trade partners, the smaller the chance is for them to do business.

In 2005, Beck and Laeven approached the issue of “Institution Building and Growth in Transition Countries” as well, but from a different perspective than their predecessors. In their view, the initial conditions of a country at the beginning of the transition period, such as distance or proximity to Western Europe, can determine great variations in the economic performance of transition countries. Although Beck and Laeven do not explain the causal mechanism through which the relationship between geographical distance and a country’s economic performance takes place, Caniëls (2002) approaches this issue in his attempt to analyze the link between knowledge spillovers and economic growth. According to Caniëls (2002) findings, knowledge spillovers can greatly influence the economic performance across countries or between the regions of the same country. Hence, distance from or proximity to more developed regions determines backward regions to worsen their situation or to develop as well.

In conclusion, according to the previously mentioned authors, geographic distance can deeply affect the chances economic actors have in interacting with each other. Location can either increase or decrease a country’s chances to economic growth, and consequently to economic development.

Chapter 2: Regional Divergence in Romania

2.1 General Information

Several administrative, developmental, and historical criteria divide the Romanian territory into provinces and regions. The administrative division of the country consists of 41 counties and the Bucharest municipality. In addition, according to historical patterns, Romania comprises of four different cultural and historical provinces - Transylvania (Northeast, center and encompassing the Banat region), Moldavia (East), Walachia (South) and Dobrogea (Southeast). And last, but not least, according to regional European standards, Romania is divided into eight NUTS-II development regions, such as Northeast, Southeast, South, Southwest, West, Northwest, Center, and Bucharest (Romania Central Web site). This division is important for the purposes of the present paper because it reflects better the interregional economic disparities in Romania. Moreover, they are part and form the historical regions in Romania, and so their division is helpful in understanding the existing economic disparities between the historical provinces they belong.

From the 14th to the 19th century, Moldavia and Walachia were under the influence of the Ottoman Empire, during that period Romania being a rural society based on agrarian economic practices (Encyclopedia Britannica Online Web site). Outside the borders of these principalities there existed Transylvania, inhabited “in the countryside by the Calvinist and Roman Catholic Hungarian nobility and in the cities by the Lutheran German-speaking Saxon upper class” (Encyclopedia Britannica Online Web site). Following the union of Moldavia and Walachia in 1859, these two provinces united with Transylvania under the name of Great Romania after the end of the First World War.

To conclude, considering the objective of the research, the present paper will use the historical and cultural division of the country in the attempt to pursue a comparative analysis of informal institutions in the Romanian provinces of Transylvania and Moldavia.

2.2 Where Is Divergence?

According to the ERAWATCH Inventory Report for Romania elaborated by the European Commission (2009), developmental regions and implicitly, historical regions are all characterized by increasing internal economic differences. As the same report notes, the regional developmental gap has greatly increased since the start of the transition period in Romania, great developmental discrepancies existing between the region of the capital city Bucharest-Ilfov and the rest of the Romanian territory. In relation to this, the European Commission's report identifies five important factors that can downsize or widen the existing economic gap between regions, such as,

the different localization and volume of FDI in the development regions, the limited access to funding of SMEs, the education level of the occupied population, and the availability of a highly skilled workforce, the loss of internal and external competitiveness of domestic enterprises as a result of low-tech and obsolete equipment³.

Additionally, the report notes that others countries have undergone the same process of development since the start of the transition period, but their regional developmental gap is not as deep as witnessed in Romania. In European Commission's opinion, "inter-regional disparities have developed [...] along a West-East axis, with the Western regions (closer to the EU markets), generally more advanced, and the most under-developed areas concentrated on the Northeast and South border" (p 35).

Pauna (2005) notes that after the fall of the communist regime in Romania in December 1989, foreign investors were expected to revitalize the Romanian economy.

³ European Commission. 2009. *ERAWATCH Inventory Report for Romania elaborated by the European Commission*. Research Inventory for the ERAWATCH Web site, p. 35.

However, the Romanian regions did not display the same potential for business development at the beginning of the transition period, as it is demonstrated by the unequal distribution of FDI across the country (Pauna 2005). As noted by Pauna (2005), a greater concentration of capital inflows has been identified in the region of the capital city, followed by the Center region of the country. South, Northwest, West, Northeast, Southeast, and Southwest of the country follow these regions in a descending order⁴.

Economic performance discrepancies are easier to observe starting with the year 2000, when, for the first time after 1989, Romania registered a positive growth of the real GDP per capita (Romania Central Web site). In this sense, the Eurostat database on real GDP growth rate states that in 2000 in Romania the real GDP growth rate was 2.4, while in 1999 real GDP registered a growth of -1.2. The following graph emphasizes the discrepancies in economic performance existing between 21 Romanian counties after the first positive increase in GDP.

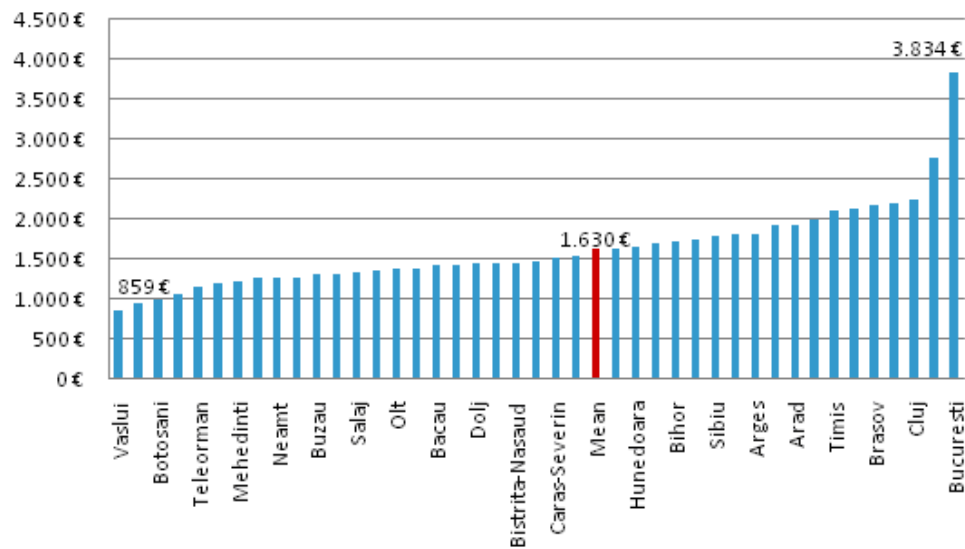


Figure 1: GDP per capita 2000 (EUR) by County in Romania

Source: Data from Romania Central Web site, Section 3.3.9: Regional Disparities.

A first analysis of the table reveals that all of the Moldavian counties included in the range are situated between the lowest value of GDP per capita and its mean value. On the

⁴ For more information on the exact amounts of capital inflows attracted by each of the Romanian development regions, please see Carmen Beatrice Pauna. 2005. *The Influence of Regional Disparities of Romania on Attracting Foreign Direct Investments*. Journal for Economic Forecasting, 2005, vol. 2, issue 1, pages 35-47.

contrary, almost all Transylvanian counties are situated above the mean value and very close to the highest value of the GDP. Taking into consideration the fact that GDP per capita is a measure used to “allow comparisons of the dynamics of economic development both over time and between economies of different sizes” (Eurostat Web site), the present paper concludes that the dynamics of the Moldavian economy before 2000 was below the dynamics of the Transylvanian economic performance. Additionally, as Romania Central Web site notes, since 2000 the developmental gap between counties has widened as GDP per capita slightly increased and several Transylvanian countries moved up the rank.

Taking into consideration the facts previously mentioned, the Romania Central Web site emphasizes that such disparities in economic development are difficult to overcome. The main argument used in this sense is that the alignment of economic performance of the regions would require higher levels of economic development for the less-developed counties, and lower levels of economic development for wealthier counties, a phenomenon that is less likely to occur (Romania Central Web site).

2.3 Communism “Worldwide”

This section provides a brief description of the socialist legacy in Romania and communist governance in former Soviet Union, as well as the causal mechanism that can determine the existence of interregional disparities in transition countries. Therefore, having as a starting point the establishment of the communist regime in both situations, the purpose of this section is to get the audience acquainted with the communist politics in Romania between 1945 and 1989 and former Soviet Union, while starting from the premise that socialism might have reinforced the differences between the Romanian regions.

2.3.1 Socialist Legacy in Romania

Morrison (2004) briefly describes the Romanian system before and after the fall of the communist regime in Romania, depicting it in both instances as “East Europe’s most glaring failure” (p. 169). Although being a rich and prosperous country before communism, Morrison (2004) notes that after the fall of the communism Romania numbered itself among the poorest states of the Eastern Europe, both from an economic and political point of view. “While resisting the capitalist world system, Romania undertook modernization, industrialization, and expansion while trying to maintain its autonomy in a rigidly exclusive communist regime” (Morrison 2004, p. 170).

Starting in 1945, the Romanian economy was transformed to a planned, centralized economy, which focused on nationalization of property and on agrarian and monetary reforms (Communism in Romania Web site). The new political regime imposed on the Romanian people “a high level of ideological orthodoxy in all facets of cultural life, including the arts, education, and the media” (Keil and Andreescu 1999, p. 485). Additionally, the communist governance never tolerated deviations from the communist party’s rules and regulations, eliminating everyone from the system who was considered to be in any way a potential threat to the party’s integrity (Keil and Andreescu 1999, p. 485). The communist party interfered in all public and private life spheres, shattering all possibilities for “party factions that may have supported more liberal policies” to come into being and express people’s dissatisfaction with the new political regime in the country (Keil and Andreescu 1999, p. 490).

According to Rusu’s essay (2007) published on the Cultural Observer Web site, number 365, civil society during the communist regime in Romania was nonexistent. Due to the repressive power of the state apparatus, communist Romania could not boast about a collectivity with a given right to voice concerns and raise issues of interest for the entire Romanian population (Rusu 2007). Instead, private and secret individual actions existed with

a diffuse distribution across the country, but incapable of public organized manifestations (Rusu 2007). In short, communist Romania was a sad image in which “suspicion, fright, and duality were blocking all of society’s possibilities to organize, which eventually led to the acceptance of a collective martyrdom” (Rusu 2007).

To conclude, it seems that communist politics were characterized by in increased mistrust from behalf of the state apparatus towards people, with an overregulation and control of both public and private life spheres. However, if people are told what to do, what to think or to believe, they will be less motivated and creative in their actions and submission or rebellion will take place (Grondona 2000, p. 48). Still, submission and rebellion do not encourage a society to flourish, as “submission leaves a society without innovators, and rebellion diverts energies away from constructive effort toward resistance, throwing up obstacles and destruction“ (Grondona 2000, p. 48). Moreover, those societies in which “the authority [...] is similar to that of an irascible, unpredictable God” (Grondona 2000, p. 52), as communist Romania was, are known as being resistant societies, very unstable and incompatible with economic development. Considering this, the present paper argues that communist Romania was closer to the “less favorable to economic growth” type of society, this having negative repercussions for the communist and post-communist Romanian society.

2.3.2 Communism in former Soviet Union

In Johnson’s (1976) opinion, the Russian Empire developed in one thousand years of existence a “trilogy of concepts known as orthodoxy (one church), autocracy (one ruler), and nationalism (one people)” (p. 2). He believes that these principles continued to govern society in the Soviet Union, although in a different form also known as “a new religion (Marxism), a new sovereign (whoever heads the Communist Party), and a new patriotism” (Johnson 1976, p. 2). The “Communist World-View” became the new doctrine that governed former Soviet Union’s society, and had as a goal the “establishment of Socialism in that country and

ultimately Communism all over the world” (Johnson 1976, p. 49). According to Johnson (1976), the following principles were claimed by the newly formed Soviet Union:

*Abolition of private property, establishment of dictatorship, creation of a highly industrialized nation, the existence of state and collective public property, selective system in education, the use of Machiavellian tactics and “power politics” in international relations, long-time retention of severe restraints on civil liberties, and reduction of trade-union authority*⁵.

Hahn (1998) describes the Soviet society in a similar manner. While highlighting the highly bureaucratized Soviet society, he puts a great emphasis on “the constraints placed on research and development in a system so obsessed with secrecy [...] incapable of competing with highly capitalized society” (Hahn 1998, p. N/A). The Socialist Labor Party of America (SLP) also shares Hahn’s opinions in several articles published “in the *Weekly People* on the 60th anniversary of the Russian Revolution of 1917” (SLP 1978, p. 1). In its view, economic stratification, and bureaucracy, people living “under a suffocating state apparatus controlled by a Communist Party” characterized the Soviet society (SLP 1978, p. 6). Nevertheless, no “elementary democratic rights of organization and communication” were awarded to Soviet Union’s working class (SLP 1978, p. 6).

In conclusion, communism in former Soviet Union was not very different from the communist regime that governed Romania between 1945 and 1989. Considering this, similar socialist and, implicitly communist principles governed politics, economics, education, and cultural life in Romanian and Soviet societies. In light if these facts and taking into consideration that communist Romania is regarded as being less favorable to economic development, the present paper endorses the view according to which the former Soviet Union portrays a “less favorable to economic development” type of society as well.

⁵ William H. E. Johnson. 1976. *The Development of Soviet Society: Perspectives from Educational Experiences*. Addresses from the Horace Mann Lecture Series and the Paul Masoner International Lecture Series, 1972-1978.

2.4 Causal Mechanism

In the attempt to explain interregional institutional and economic disparities in Romania, Bădescu and Sum (2005) consider that “throughout Eastern Europe, the communist legacy with varying degrees of severity had effects which were independent of any pre-communist conditions” (p. 118). Similarly, Beck and Leaven (2005) argue that 40 years is a time-period large enough for the socialist system to consolidate and, consequently, for a society to internalize the communist regime’s characteristics that will later pose severe problems for the economic development of the country. Last, but not least, Dimitrova-Grajzl (2007) concludes that institutional differences among countries or between regions of the same country depend on “the presence and duration of Ottoman or Habsburg Rule” (p. 555), while the socialist legacy has no significant influence over the institutional development of these states (p. 539).

Considering the above institutional development theories and the characteristics of the communist governance in Romania between 1945 and 1989, the present paper endorses that almost 45 years of communist governance imposed on Romanian society a uniform, strict, and very rigid system everywhere within the borders of the country, while reinforcing the institutional disparities caused by the Ottoman and Habsburg rule.

Chapter 3: Empirical Analysis and Data

So far, it has been established that communist governance in Romania has reinforced the interregional development disparities caused by the presence and duration of Hapsburg and Ottoman policies. However, Bădescu and Sum (2005) consider that “in Romania and Eastern Bloc states, the Soviet Union, i.e. foreign power with its own cultural norms and traditions, maintained influence over many political decisions” (p. 118). Concurrently, there are theoretical models according to which proximity to Western Europe (Beck and Leaven 2005) and to more developed regions can determine higher levels of economic development through knowledge, technological (Kološta 2007) and institutional spillovers⁶ (Lane and Rohner 2004). Considering these, one more theoretical model for institutional development is suggested, according to which varying degrees of communist influence, defined as proximity to former USSR, may affect institutional development in the Romanian provinces of Transylvania and Moldavia.

To conclude, the premise from which the subsequent analysis starts is that “geographical proximity to former USSR can result into a deficient institutional development within the regions situated in its vicinity” (hypothesis 1), this eventually affecting their economic development as well. Hence, physical proximity to former Soviet Union during the transition period deepened the institutional gap between the Romanian provinces of Transylvania and Moldavia. Consequently, the objective of this research is to establish if and how proximity to former Soviet Union contributed to the widening of the institutional gap between Transylvania and Moldavia and identify possible practical solutions for recovery, if needed.

⁶ Jan-Erik Lane and Dominic Rohner (2004) discuss institutional spillover as “spillovers among institutions” (p. 1).

Considering these, in the following section I will investigate the way proximity to USSR in terms of kilometers affected institutional development in these regions, this potentially having great influences on the economic development of both regions. Accordingly, “the closer the region is to former Soviet Union, the less likely it is for that region to be characterized by institutions favorable to development” (hypothesis 2). Considering Grondona’s (2000) contrasting cultural factors, I also posit that “the closer the region is to former Soviet Union, the more likely it is for that region to be characterized by lower levels of trust” (hypothesis 3).

3.1 Data Selection

The paper uses data from the Romanian national Public Opinion Barometer (POB) in order to investigate empirically the relationship between proximity to former USSR and interregional disparities between Transylvania and Moldavia.

I use the 2003 POB, which includes the variable “historical region” that will be used to measure and distinguish between different values of proximity to former Soviet Union. This database covers variables such as corruption, culture and values, politics and institutions, as well as inequality and poverty.

The sample size is stratified, probabilistic and tri-stadial and the selection method ensured representativeness of the Romanian population.

3.2 Variable Measurement

3.2.1 Choice of Variables

Considering the objective of the research and guided by the definition of culture from the first chapter and the twenty contrasting cultural factors analyzed by Grondona (2000), I will use *trust in most of the people, in government, church, army, the Romania Secret Service of Information*, and *trust in the Romanian educational system* as proxies for the dependent variable *trust*.

The independent variable of the present analysis is physical proximity to former Soviet Union. This variable will be understood in terms of how big or small the distance in kilometers between Kiev and the respondent is. I have considered Kiev because, during communist times, and implicitly during the existence of the former USSR, the capital cities of the countries were the decision centers where everything happened, from political and economic resolutions to administrative, social, and educational decisions, and this might still happen. Because the aim of the analysis is to realize a comparative analysis of institutions in the Romanian provinces of Transylvania and Moldavia, I will use the variable *historical region* as proxy for physical proximity to former Soviet Union, its transformation and recoding being described later in the paper.

I also include in the analysis *gender*, *age*, and *rural-urban environment* as explanatory variables. The reason for this is that “estimates may be very sensitive to the [...] deletion of an apparently insignificant variable” (Hill et. al 2008, p. 190) and it is important not to omit any variable in order not to register biased estimates of the coefficients.

3.2.2 Econometric Model Estimation

Historical region will be used as proxy for proximity to former Soviet Union, which is understood in terms of distance in kilometers between Kiev and the respondent. Therefore, it is necessary to transform and recode the variable *historical region* into a different variable (output variable), *distance from Kiev to respondent*, in order to measure geographical proximity to former Soviet Union.

In the 2003 BOP database, the variable *historical region* is assigned values from 1 to 8, as it follows:

1 – Moldavia, 2 – Muntenia, 3 – Oltenia, 4 – Dobrogea, 5 - Transylvania, 6 – Crisana and Maramures, 7 – Banat, and 8 – Bucharest.

However, these regions represent the eight development regions in Romania and not the historical regions of the country. Therefore, it is necessary to regroup the development regions into the four historical regions of the country, which make the object of the study.

Muntenia, Oltenia, and Bucharest belong to the historical region of Walachia. Crisana, Maramures, and Transylvania belong to the historical region of Transylvania. In the case of Moldavia and Dobrogea, there will be no regrouping as they represent the same historical regions as their names suggest. Consequently, four new categories of regions were formed, Moldavia, Dobrogea, Walachia, and Transylvania, these being the categories of the output variable *distance from Kiev to respondent*, also representing the four historical regions of the country.

While proximity to former Soviet Union is understood in terms of kilometers, the output variable needs new values to be assigned that emphasize the distance from Kiev to the region from which the respondent comes from. Therefore, new values have been assigned to the new variable according to a very simple principle: distance between the closest Romanian county from each region and Kiev (Navteq Map 24 Web site). Therefore, Botosani is the closest county to Kiev from Moldavia, the distance between them numbering a total of 349 kilometers. Seemingly, Harghita is the closest county to Kiev from Transylvania, the distance between them being equal to 533 kilometers. Further calculations revealed that Tulcea is the closest county to Kiev from Dobrogea, being situated at a distance of 511 kilometers from Ukraine's capital city. From Walachia, Braila is the closest county to Kiev, the distance between them being equal to 603 kilometers. Therefore, I have assigned values to the output variable and ranked the regions according to the closest county to Kiev from each region, as it follows:

1 – Moldavia, 2 – Dobrogea, 3 – Walachia, 4 – Transylvania.

The following table highlights the recoding of “historical region” into the output variable:

<u>Input Variable</u>		<u>Output variable</u>
<u>Old Values</u>	<u>New Values</u>	<u>New Labels</u>
1 - Moldova	1.00	“very small distance”
4 - Dobrogea	2.00	“small distance”
2 - Muntenia	3.00	“big distance”
3 - Oltenia		
8 - Bucharest		
5 - Transylvania	4.00	“very big distance”
6 - Crisana and Maramures		
7 - Banat		

Table 1: Transformation and recoding of historical region variable into output variable

For the subsequent analysis, dependent variables do not need to be transformed and recoded into same or different variables. Therefore, “trust” (pg) will be kept in the database with its initial values and labels. Moreover, variables that will not be used in the analysis have been removed from the database in order to minimize the possibility of mistaking. Last, but not least, I have manually declared all missing values of the variables that will be used in the analysis as these can negatively influence the final estimates of the regression model.

Based on the above-mentioned observations, the multiple regression model of the analysis has the following form:

$$y_i = \beta_1 + \beta_2 x_{i2} + \beta_3 x_{i3} + \beta_4 x_{i4} + \beta_5 x_{i5} + e_i$$

where y is the dependent variable (*trust*), i represents the number of respondents, β_2 indicates the *distance from Kiev to respondent*, β_3 represents the *gender* of the respondent, β_4 indicates the *age* of respondent, β_5 represents the *urban/rural environment*, and e_i is the error term of the regression model I estimate.

3.3 Data Interpretation

The variable *trust* has been regressed against *distance from Kiev to respondent*, *gender*, and *age*, as well as the *rural/urban environment*. The following table integrates the results of the statistical investigation only for the relation between the variable *trust* and *distance from Kiev to respondent*. Still, the discussion of results will incorporate all coefficients of the regression.

Dependent Variables	Independent Variable				
	Distance from Kiev to respondent				
	B	t	R ₂	Obs.	Sig.
Trust in people	-0.036	-3.376	0.010	1764	0.001
Trust in church	-0.071	-4.240	0.058	2086	0.000
Trust in Government	-0.061	-2.642	0.11	2011	0.008
Trust in army	-0.107	-4.990	0.25	1960	0.000
Trust in SRI	-0.062	-2.305	0.42	1602	0.021
Trust in education	-0.039	-1.937	0.006	1948	0.053

Table 2: Estimates and coefficients of the econometric model estimated

Coefficients in the first row of the table represent the relation between *distance from Kiev to respondent* and *trust in people*. Based on the estimated econometric model, the relation between these variables can be rewritten in the form of a fitted line also, as it follows:

$$\hat{y}_i = 1.730 + (-0.036)x_{i2} + 0.044x_{i3} + (-0.001)x_{i4} + (-0.034)x_{i5}$$

- $b_1 = 1.730$ describes the level of *trust in people* when *distance from Kiev to respondent*, *gender*, *age*, and *rural-urban environment* are equal to zero;
- $b_2 = -0.036$ describes a decrease in *trust in people* with 0.036 units, when *distance from Kiev to respondent* increases with 1 unit, and all others held constant;

- $b_3 = 0.044$ implies that *trust in people* will increase with 0.044 units if *gender* increase with 1 unit, while all other coefficients are held constant;
- $b_4 = -0.001$ implies that the level of *trust in people* decreases with 0.001 units if *age* increases with 1 unit and all others are held constant;
- $b_5 = -0.034$ implies that *trust in people* decreases with 0.034 units if the variable *rural-urban environment* increases with 1 unit, all others held constant;
- $p = 0.001$ implies that *distance from Kiev to respondent* has a statistically significant effect on the level of *trust in people*;
- $R_2 = 0.010$ implies that the estimated econometric model explains 1% of the variation of y , *trust in people*, around its mean.

To conclude, it seems that a larger distance between Kiev and respondent determines individuals to trust less in people. Moreover, according to the values of *gender* variable in the database and its estimate, women trust more in people than men do. Additionally, older persons tend to trust less in people than the young ones, as well as people from the rural areas.

Coefficients in the second row of the table represent the relation between *distance from Kiev to respondent* and *trust in church*. Based on the estimated econometric model, the relation between these variables can be rewritten in the form of a fitted line also, as it follows:

$$\hat{y}_i = 2.686 + (-0.071)x_{i2} + 0.277x_{i3} + 0.005x_{i4} + 0.166x_{i5}$$

- $b_1 = 2.686$ represents the estimated value of *trust in church* when all the other coefficients are zero;
- $b_2 = -0.071$ describes a decrease in the level of *trust in church* with 0.071 units, when *distance from Kiev to respondent* increases with 1 unit, all others held constant;
- $b_3 = 0.277$ implies that *trust in church* will increase with 0.277 units when *gender* increases with 1 unit and all other coefficients are held constant;

- $b_4 = 0.005$ implies that *trust in church* increases with 0.005 units if *age* increases with 1 unit and all others are held constant;
- $b_5 = 0.166$ implies that *trust in church* increases with 0.166 units if *rural-urban environment* increases with 1 unit, all others held constant;
- $p = 0.000$ implies that *distance from Kiev to respondent* has a statistically significant effect on the level of *trust in church*;
- $R_2 = 0.058$ implies that the estimated econometric model explains 5.8% of the variation of y , *trust in church*, around its mean.

To conclude, the above relations between the dependent and independent variables of the model imply that the bigger the distance is between Kiev and respondent, the lower is the level of trust in church. Furthermore, women and older people tend to trust more in church than men and young persons do. Last, but not least, individuals from the rural environment exhibit a higher level of trust in church than people from urban areas do.

Coefficients in the third row of the table represent the relation between *distance from Kiev to respondent* and *trust in government*. Based on the estimated econometric model, the relation between these variables can be rewritten in the form of a fitted line also, as it follows:

$$\hat{y}_i = 1.702 + (-0.061)x_{i2} + (-0.021)x_{i3} + 0.004x_{i4} + 0.133x_{i5}$$

- $b_1 = 1.702$ represents the estimated value of the *trust in government* when all the other coefficients are zero;
- $b_2 = -0.061$ describes a decrease in *trust in government* with 0.061 units, if *distance from Kiev to respondent* increases with 1 unit, all others held constant;
- $b_3 = -0.021$ implies that *trust in government* decreases with 0.021 units if *gender* increases with 1 unit and all other coefficients are held constant;
- $b_4 = 0.004$ implies that *trust in government* increases with 0.004 units when *age* increases with 1 unit and all others are held constant;

- $b_5 = 0.133$ implies that *trust in government* increases with 0.133 units if *rural-urban environment* increases with 1 unit, all others held constant;
- $p = 0.000$ implies *distance from Kiev to respondent* has a statistically significant effect on the level of *trust in government*;
- $R_2 = 0.011$ implies that the estimated econometric model explains 1.1% of the variation of y , *trust in government*, around its mean.

In conclusion, the above estimates imply that if distance from Kiev to respondent increases, people will trust less in the government. Accordingly, women trust less in government than men do, while an older person trusts more in government than does a young person. Inhabitants of rural areas display more trust in government than people from urban areas do.

Coefficients in the fourth row of the table represent the relation between *distance from Kiev to respondent* and *trust in army*. Based on the estimated econometric model, the relation between these variables can be rewritten in the form of a fitted line also, as it follows:

$$\hat{y}_i = 2.907 + (-0.107)x_{i2} + (-0.117)x_{i3} + 0.005x_{i4} + 0.054x_{i5}$$

- $b_1 = 2.907$ represents the estimated value of *trust in army* variable when all independent variables are zero;
- $b_2 = -0.107$ describes a decrease in *trust in army* with 0.107 units, if *distance from Kiev to respondent* increases with 1 unit, all others held constant;,
- $b_3 = -0.117$ implies that *trust in army will* decrease with 0.117 units if *gender* increases with 1 unit and all other coefficients are held constant;
- $b_4 = 0.005$ implies that *trust in army will* increases with 0.005 units if *age* increases with 1 unit and all others are held constant;
- $b_5 = 0.054$ implies that *trust in army* increases with 0.054 units if *rural-urban environment* increases with 1 unit, all others held constant;

- $p = 0.000$ implies *distance from Kiev to respondent* has a statistically significant effect on *trust in army*;
- $R_2 = 0.025$ implies that the estimated econometric model explains 2.5% of the variation of y , *trust in army*, around its mean.

To conclude, it seems that people trust less in army, if distance between Kiev and respondent increases. Women tend to have a lower level of trust in army than men do, and older people have a higher level of trust in army than young individuals do. Last, but not least, inhabitants from rural areas trust the army more than people from urban areas do.

Coefficients in the fifth row of the table represent the relation between *distance from Kiev to respondent* and *trust in army*. Based on the estimated econometric model, the relation between these variables can be rewritten in the form of a fitted line also, as it follows:

$$\hat{y}_i = 3.055 + (-0.062)x_{i2} + (-0.110)x_{i3} + (-0.012)x_{i4} + (-0.169)x_{i5}$$

- $b_1 = 3.055$ represents the estimated value of *trust in SRI* when all the other coefficients are zero;
- $b_2 = -0.062$ describes a decrease in *trust in SRI* with 0.062 units, if *distance from Kiev to respondent* increases with 1 unit, all others held constant;
- $b_3 = -0.110$ implies that *trust in SRI* will decrease with 0.110 units if *gender* increases with 1 unit, all others held constant;
- $b_4 = -0.012$ implies that *trust in SRI* will decrease with 0.012 units if *age* increases with 1 unit and all others are held constant;
- $b_5 = -0.169$ implies that *trust in SRI* decreases with 0.169 units if *rural-urban environment* increases with 1 unit, all others held constant;
- $p = 0.021$ implies *distance from Kiev to respondent* has a statistically significant effect on *trust in SRI*;

- $R_2 = 0.042$ implies that the estimated econometric model explains 4.2% of the variation of y , *trust in SRI*, around its mean.

In conclusion, it seems that people's level of trust in SRI will decrease if distance, gender, age and rural-urban environment increase. Therefore, people trust less in SRI if distance between Kiev and respondent increases. Similarly, women, older people and inhabitants of rural areas tend to have a lower level of trust in SRI.

Coefficients in the last row of the table represent the relation between *distance from Kiev to respondent* and *trust in education*. Based on the estimated econometric model, the relation between these variables can be rewritten in the form of a fitted line also, as it follows:

$$\hat{y}_i = 2.607 + (-0.039)x_{i2} + (-0.002)x_{i3} + 0.001x_{i4} + 0.107x_{i5}$$

- $b_1 = 2.607$ represents the estimated value of the *trust in education* when all the other coefficients are zero;
- $b_2 = -0.039$ describes a decrease in *trust in education* with 0.039 units, if *distance from Kiev to respondent* increases with 1 unit, all others held constant;
- $b_3 = -0.002$ implies that *trust in education* will decrease with 0.002 units if *gender* increases with 1 unit, all others held constant;
- $b_4 = 0.001$ implies that *trust in education* will increase with 0.001 units if *age* increases with 1 unit and all others are held constant;
- $b_5 = 0.107$ implies that *trust in education* increases with 0.107 units if *rural-urban environment* increases with 1 unit, all others held constant;
- $p = 0.053$ implies that *distance from Kiev to respondent* does not have a statistically significant effect on *trust in education*;
- $R_2 = 0.006$ implies that the estimated econometric model explains 0.6% of the variation of y , *trust in education*, around its mean.

In conclusion, people will trust less in the Romanian system of education if the distance between Kiev and respondent increases. In the same manner, women have a lower level of trust in the Romanian system of education than men do. Furthermore, older people and inhabitants of rural areas exhibit a higher level of trust in the Romanian system of education than younger persons do and people from urban areas do.

The Independent Samples Test results from Annex 1 emphasize that there are statistically significant differences between Transylvania and Moldavia's mean values for the *trust* variable when regressed against distance from Kiev to respondent, with the exception of *trust in education* variable.

After the regression of all dependent variables required by the present analysis, the independent variables of the analysis have been introduced into a correlation table in order to discover possible multicollinearity situations that could lead to biased estimates in the regression analysis above. Fortunately, there is no such situation between the independent variables of the econometric model estimated, as the following table shows:

		Gender	Age	Environment	Distance
Gender	Pearson Correlation	—	.067**	-.067**	-.007
Age	Pearson Correlation	—	—	.088**	-.019
Environment	Pearson Correlation	—	—	—	-.089**
Distance	Pearson Correlation	—	—	—	—

** Correlation is significant at the 0.01 level (2-tailed).

Table 3: Correlation table of all independent variables included in the econometric model estimated

3.4 Conclusions

In the beginning of the analysis, I posited that varying degrees of communist influence, defined as geographical proximity to former USSR, might affect institutional

development in the Romanian provinces of Transylvania and Moldavia. Therefore, according to hypothesis 1, physical proximity to former Soviet Union during contemporaneous times deepened the institutional gap between the Romanian provinces of Transylvania and Moldavia, this being conducive to a deficient institutional development of the regions situated in its vicinity. Seemingly, hypothesis 2 implies that the closer the region is to former Soviet Union, the less likely it is for that region to be characterized by institutions favorable to economic development. Considering the interregional economic disparities between Transylvania and Moldavia, as well as Grondona's (2000) debate on contrasting cultural factors that can favor or hinder economic development, I expected the levels of *trust* to increase as the *distance from Kiev to respondent* increases (hypothesis 3).

Table 3: Correlation table of the independent variables included in the regression model

Regarding the *trust* variable, none of my expectations was met. In all cases *trust* decreases as *distance from Kiev to respondent increases*. Consequently, people in Moldova have a higher level of trust in people, church, government, the Romanian Secret Service of Information (SRI), Romanian system of education, and in the army, whereas the level of trust in Transylvania in people and state's public institutions is much lower.

Unfortunately, the present analysis also registered statistical weaknesses and limits. Although in most of the cases the relation between variables is statistically significant, influence of the distance variable on membership in unions, political parties, and NGOs is not statistical significant. The causes for these results reside in specification problems, such as the inclusion of an irrelevant control variable, the omission of a relevant control variable from the regression model, or one year-based analysis. Therefore, I advocate for further empirical studies that take into consideration other Romanian regions as well, and a larger number of countries to test the present paper's hypotheses.

To conclude, the data does not confirm hypothesis 1. Therefore, neither can hypothesis 2 be confirmed, with the exception of union membership. More specifically, because Moldova

registers higher participatory and trust values, but a low level of economic performance, economic developmental differences between the two Romanian regions cannot be explained on account of the institutional differences revealed by the present analysis. However, the statistical analysis reveals that proximity to former Soviet Union can influence the development of institutions in Moldavia and Transylvania, although not in the direction I predicted. This relationship is real and significant and should not be disregarded, as it can have practical implications for the overall development of the regions in question.

Chapter 4: Practical Implications

The empirical analysis and data interpretation in the previous chapter pointed to an inverse relation between *distance from Kiev to respondent*, and *trust* than that I have anticipated. Even though hypothesis 1 and 2 are not confirmed, the institutional gap still exists between the Romanian provinces of Transylvania and Moldavia in an inverse direction than the one I estimated, and this can have implications for the development of society in both regions.

In my opinion, a low level of trust implies that there exists accountability and transparency issues, these being great threats for the overall development of a society in transition like that of Romania. I also consider that for the establishment and consolidation of democracy in a post-communist country like Romania, accountability and transparency issues should not exist, and everyday practices should be characterized by an increased level of trust in all domains of activity. A high level of trust would help people interact in a better and respectful way, would consolidate friendships and business relations, and would be more conducive to the creation of social networks that are indispensable for people to develop socially and professionally.

So far, according to the Ministry for Regional Development and Housing, in Romania the regional development policies have approached the issue of a dynamic and durable economic increase. This way, authorities put an emphasis on factory development, labor market, foreign direct investment, technological development, infrastructure improvement, rural and cultural development, education, and health (Ministry for Regional Development and Housing). Therefore, none of the policies implemented for regional development approaches the issue of institutional development.

Indeed, the Romanian historical regions have different economic development needs and European and regional policies are implemented in order to diminish the development gap

existing between them. However, all these regional policies are formulated and implemented according to different needs and objectives, as policies that proved to work in more developed areas cannot be implemented in poorly developed regions that target a level of economic performance different from the targeted level of economic development by wealthier areas. As noted on Romania Central Web site, alignment of economic performance of the regions would require higher levels of economic development for the less-developed counties, and lower levels of economic development for wealthier counties, a phenomenon that is less likely to occur. Consequently, each region is driven in its actions by different economic purposes and objectives. In addition, as Barna (2008) notes, “different objectives lead to divergence, and not to convergence” (p. 4). Consequently, I posit that, while regional policies can be driven by different economic objectives, common institutional development objectives should be at the core of regional cohesion policies, no matter that they are implemented by European bodies, national or local authorities.

To conclude, in my view, institutional weaknesses caused by different historical legacies can only be overcome through the implementation of new institutions within the society with the same intensity over all regions. Moreover, I consider that institutional development can enhance durable development, and this is why regional development policies should also include in their structure the development of institutions such as trust. I also encourage further empirical studies that approach the issue of institutional development to be performed. In this way, a clear image over the national institutional development will be formed, policy makers having the possibility to include in their projects measures for institutional recovery in regions and areas where there is an observed deficient institutional development. Last, but not least, I consider that policy makers should formulate policies that directly point to institutional issues and recovery methods, this way eliminating all

possibilities for the institutional development issue to be lost between the lines of a cohesion policy targeted to address regional economic development.

Conclusions

Several specialists in the field of economics, history, sociology, and geography⁷ have researched the causal mechanism through which culture, history, and geography can influence the economic development of a country. As seen in Chapter 1 of this paper, in their attempt to explain what exactly determines the level of economic performance in a society with regard cultural factors, historical legacies and geographical characteristics, almost all of them have reached the common conclusion according to which culture, history and geography can influence a society's level of economic development through institutions. Their argument in this sense is that culture, history, and geography influence the institutional development of the country, which in turn affects its development, especially its economic performance.

Considering the above, the Romanian historical regions are very good contrasting examples in what it concerns interregional economic disparities between areas within the same country. However, the focus of the present study is on Transylvania and Moldavia, as these are the extremes of interregional development disparities in Romania. When examining the developmental gap existing between them, one can observe that there are great economic discrepancies between them. And because economic development is greatly influenced by the institutional development of the region, subsequent chapters approached the institutional development differences between Transylvania and Moldavia.

While some⁸ say that socialism has no significant effect on the development of post-communist countries, others⁹ argue that the socialist legacy can greatly influence the development of countries that were once part of the socialist bloc. Therefore, taking into

⁷ Banfield (1985), Tabellini (2009), Hezel (2009), Lipset (1959), Boettke (1998), Grondona (2000).

⁸ Dimitrova-Grajzl (2007).

⁹ Bădescu and Sum (2005), Beck and Laeven (2005).

consideration theories according to which proximity to Western Europe and to more developed areas determines higher levels of economic performance within regions situated in their vicinity, and theories that emphasize the possibility of institutional spillovers between institutions¹⁰, the present paper sought to investigate if and how proximity to former Soviet Union during contemporaneous times affected the institutional development of Transylvania and Moldavia. More specifically, the present study investigated how distance in kilometers from respondent to Kiev influences institutional development in Transylvania and Moldavia.

Although the analysis started from the premise according to which the closer the region is to Ukraine's capital city, the more likely is for that region to register low levels of trust in people and in state's institutions, the relation between the *trust* variable and distance has been rejected by the results of the analysis. Even though the empirical analysis pursued rejects the main hypothesis with which the present paper operates, the same data emphasizes that there is an opposite statistically significant relationship between trust and distance from Kiev. Accordingly, proximity to former Soviet Union determines higher levels of trust in people and state's public institutions in Moldavia than in Transylvania.

As stated in previous chapters, even though the main hypothesis of the analysis was not confirmed, the results registered suggest the existence of accountability and transparency issues in the areas where a lower level of trust in individuals and in state's public institutions. Accordingly, practical implications of these issues have been discussed. However, the results of the present analysis may be improved and their practical implications may change if further empirical studies are pursued with focus on other institutional variables, regions, or if a time-series analysis is performed on other post-communist countries.

¹⁰ Beck and Laeven (2005), Kološta (2007), Lane and Rohner (2004).

Reference List

- Bădescu, Gabriel, and Sum, Paul E.. *Historical Legacies, Social Capital and Civil Society: Comparing Romania on a Regional Level*. Europe-Asia Studies, Vol. 57, No. 1 (Jan. 2005), pp. 117-133.
- Banfield (1958) and Lipset (1959) in Tabellini, Guido. (2006). *Culture and Institutions: Economic Development in the Regions of Europe*. Bocconi University: IGER.
- Banks, J.A., Banks, & McGee, C. A. (1989). *Multicultural education*. Needham Heights, MA: Allyn & Bacon.
- Barna, Radu Cristian. 2008. *Regional Economics*. Cluj-Napoca: Foundation for European Studies.
- Beck, Thorsten and Leaven, Luc. 2005. *Institution Building and Growth in Transition Economies*. World Bank Policy Research Working Paper 3657.
- Boettke, Petter. (1998). *Why Culture Matters: economics, politics and the imprint of history*. In Journal of the LSE Hayek Society, Vol 2, N 1.
- Caniëls, Marjolein C.J. 2002. *Knowledge Spillovers and Economic Growth – Regional Growth Differentials across Europe*.
- Communism in Romania Web site, Economic Aspects in Communist Romania, <http://www.comunismulinromania.ro/aspecte-documentare/articole/5-romania-comunist-aspecte-economice-.html> (accessed on August 23, 2009)
- Damen, L. (1987). *Culture Learning: The Fifth Dimension on the Language Classroom*. Reading, MA: Addison-Wesley.
- Dimitrova-Grajzl, Valentina. *The Great Divide Revisited: Ottoman and Habsburg Legacies on Transition*. KYKLOS, Vol. 60 – 2007 – No. 4, 539–558.
- Elliott, Philip, and Schlesinger, Philip. Some aspects of communism as a cultural category. *Media Culture Society* 1979; 1; 195.

Encyclopedia Britannica Online Web site. Romania.

<http://search.eb.com/eb/article-9110568> (accessed on August 17, 2009)

Eurostat. Real GDP growth in Romania

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020> (accessed on August 29, 2009)

European Commission. 2009. *ERAWATCH Inventory Report for Romania elaborated by the European Commission*. Research Inventory for the ERAWATCH Web site.

European Union. 2007. *Regional Policy. Regions in Development, Europe in Development. The Fourth Report on Economic and Social Cohesion*. Luxembourg: Office for European Communities Official Publications.

Ghemawat, Pankaj. (2001). *Distance Still Matters. The Hard Reality of Global Expansion. Toolkit*.

Grabowski, Richard, Self, Shamistha, and Shields, Michael P. 2007. *Economic Development. A Regional, Institutional, and Historical Approach*. London, England: M.E. Sharpe.

Grondona, Mariano. 2000. *A Cultural Typology of Economic Development*. In *Culture Matters: How Values Shape Human Progress*. Edited by Lawrence E. Harrison and Samuel P. Huntington. New York: Basic Books.

Harrison, Mark. 2002. Coercion, Compliance, and the Collapse of the Soviet Command Economy. *The Economic History Review*, New Series, Vol. 55, No. 3, pp. 397-433.

Hezel, Francis X. 2009. *The Role of Culture in Economic Development*. http://www.micsem.org/pubs/counselor/frames/culture_economic_developmentfr.htm

Hill, Carter R., Griffiths E. William, and Judge, G. Jorge. 2008. *Undergraduate Econometrics*. 2nd Edition, John Willey & Sons, Inc.

Hahn, M. Gordon. 1998. *An Autopsy of the Soviet Economy*. In Hoover Archives, No. 4. <http://www.hoover.org/publications/digest/3540681.html> (accessed on September 3, 2009)

Hofstede, Geert. (1984). *National cultures and corporate cultures*. In L.A. Samovar & R.E. Porter (Eds.), *Communication Between Cultures*. Belmont, CA: Wadsworth.

Johnson, William H. E.. 1976. *The Development of Soviet Society: Perspectives from Educational Experiences*. Addresses from the Horace Mann Lecture Series and the Paul Masoner International Lecture Series, 1972-1978.

Keating, Michael et al. *Culture, Institutions and Economic Development*

Keil, Thomas J., and Andreescu, Viviana. *Fertility Policy in Ceausescu's Romania*. *Journal of Family History* 1999; 24; 478.

Kološta, Stanislav, et. all. 2007. Regional disparities among countries and analysis of reasons of their creation. Munich Personal RePEc Archive.

http://mpa.ub.uni-muenchen.de/13981/1/MPRA_paper_13981.pdf (accessed on August 17, 2009)

Landes, S. David. 1998. *The Wealth and Poverty of Nations: Why Are Some So Rich and Others So Poor?* New York: W.W. Norton.

Lane, Jan-Erik, and Rohner, Dominic. 2004. *Institution Building and Spillovers*. In *Swiss Political Science Review* 10 (1): 77-90.

Luca, Adina. 2005. *Employee'scu. A Crosscultural Perspective on Management in Romania*. Interact Business Communications, Bucuresti: Romania Pur si Simplu.

Morrison, Lynn. *Ceausescu's Legacy: Family Struggles and Institutionalization of Children in Romania*. *Journal of Family History* 2004; 29; 168.

Navteq Map 24 Web site,

<http://link2.map24.com/?lid=9e5ba130&maptype=JAVA&action=route&width=1500&lang=RO&s=Kiev&country=RO&d=Arad&country=RO> (accessed on August 29, 2009)

Nunn, Nathan. 2009. THE IMPORTANCE OF HISTORY FOR ECONOMIC DEVELOPMENT. NBER WORKING PAPER SERIES, Working Paper 14899.

Pauna, Carmen Beatrice. 2005. *The Influence of Regional Disparities of Romania on Attracting Foreign Direct Investments*. Journal for Economic Forecasting, vol. 2, issue 1, pages 35-47.

Rodrik, Danni, Subramanian, Arvind, and Trebbi Francesco. 2002. *Institutions Rule: The Primacy of Institutions over Integration and Geography in Economic Development*. IMF Working Paper WP/02/189.

Romania Central Web site. Regional Disparities in Romania.

<http://www.romania-central.com/economy-of-romania/the-economy-of-romania/33-development-regions-of-romania/339-regional-disparities-in-romania/> (accessed on August 17, 2009)

Rusu, Horia. (2007). *Communism and Civil Society in Romania*. Published on the Cultural Observer Web site, Issue No. 365.

http://www.observatorcultural.ro/Comunism-si-societate-civila-in-Romania-%28I%29*articleID_17312-articles_details.html (accessed on August 23, 2009)

Socialist Party of America. *The Nature of Soviet Society*. Pamphlet first appeared as a series of articles in the *Weekly People* on the 60th anniversary of the Russian Revolution of 1917.

Tabellini, Guido. (2006). *Culture and Institutions: Economic Development in the Regions of Europe*. Bocconi University: IGIER.

Taylor, E. B. T. (1924). *Primitive Culture*. Gloucester, MA: Smith. (Original work published 1871).

Voicilas, Dan Marius. *Regional disparities in Romania – an analysis on the foreign direct investments efficiency*. Romanian Academy, Bucharest, Institute of Agricultural Economics, Romania.

Culture and Language Learning. What is Culture?

<http://www.carla.umn.edu/culture/definitions.html> (accessed June 21, 2009)

World Bank. Defining Civil Society.

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/CSO/0,,contentMDK:20101499~menuPK:244752~pagePK:220503~piPK:220476~theSitePK:228717,00.html> (accessed on September 3, 2009)