

Operationalizing Political and Economic Culture in Eastern Europe

By Shai Moses¹

Abstract

The completion of the first wave of Eastern enlargement determined the European Union (EU) to become more heterogeneous in terms of living standards. All ten new member states (NMS) are below the average EU's GDP per capita. Furthermore, since this contemporary gap in wealth between the enlarged EU and the rest of the Central and Eastern European (CEE) region is even greater, questions of regional security and stability are already present. This short paper aims to shed some light on this subject through a comparative examination of some aspects of political and economic cultural competences that affect the economic convergence of the Central and Eastern European Countries (CEECs) to the EU.

One of the problems in dealing with economic culture and its effects on wealth is that it is a broad definition, and that it is not quite obvious how we can operationalize it. In response, Moses suggests narrowing the discussion to a particular aspect of economic culture, by examining specifically libertarian and entrepreneurial values. Arguments presented here are that the libertarian values, that is philosophical mindset that emphasizes the responsibility of the self and the maximization of liberty for every individual, and in particular, the need for high economic and personal freedoms, do exist to various degrees in CEECs and have a significant impact on entrepreneurial values. The second argument is that these entrepreneurial values, as reflected in the support for competition, private business ownership and which put emphasis on innovation, do have a positive and significant contribution towards CEECs' convergence.

Introduction

The completion of the first wave of Eastern enlargement determined the European Union (EU) to become more heterogeneous in terms of living standards, i.e., all ten new Member States (NMS) are below the average EU GDP per capita. This has strengthened the core-periphery patterns across the Union. Given that economic prosperity is associated with the support for further integration, the process of enlargement raises the uncertainty of whether the enlarged Union could advance

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towards one European *demos*. Furthermore, since the contemporary gap between the enlarged EU and the rest of Central and Eastern European (CEE) region is even greater in terms of living standards, questions of regional security and stability are already present.

This short paper aims to shed some light on this subject through a comparative examination of some aspects of political and economic culture competences that affect the economic convergence of Central and Eastern European Countries (CEECs) to the EU. The main questions to be addressed are: How do political and heritage values contribute to the process of CEECs' economic convergence? What is the role of economic culture in this story? And more specifically, why do some new Members succeed to converge closer than others?

While the impact of economic conditions on CEECs' integration is well analyzed (Brenton and Manzoichi 2002; Dohrn et al. 2001; Hilpert 2003; Hunya 2000; Johnson and Rollo 2001; Kaminski 1999; Moses 2004; and Patrakos et al. 2000), the impact of economic culture, defined as the values, attitudes, and beliefs in a society, as reflected in material and mental constructs concerning different issues of society-market relations and income and wealth distribution have not yet fully developed (exceptions could be seen in: Barnes and Simon 1998; Kovács 2002; and Roderick 1999).

One of the problems in dealing with economic culture and its effects on wealth is that it is a broad definition, and that it is not quite obvious how we can operationalize it. At this point, I suggest narrowing the discussion to a particular aspect of economic culture, by examining specifically libertarian and entrepreneurial values. I wish to argue that libertarian values, that is, the philosophical mindset that emphasizes self-responsibility and the maximization of liberty of every individual, and in particular, the need for high economic and high personal freedoms, do exist to various degrees in CEECs, and have a significant impact on entrepreneurial values. The second argument I wish to make is that these entrepreneurial values, as reflected in the support for competition and private business ownership, and which put emphasis on innovation, do have a positive and significant contribution towards CEECs' convergence.

But let's begin with a discussion on what the actual problem is. The enlarged EU consists of a set of countries with a wide diversity of GDP per capita. As can be seen in Table 1, GDP per capita in countries like Ireland, Denmark, Luxembourg, the

Netherlands and Austria is more than 20 percent higher than that of the EU-25 average. At the same time, countries like Estonia, Latvia, Lithuania, Poland and Slovakia have less than 50 percent GDP per capita than the EU-25 average. This variation increases the probability that the Union will be affected quite differently by asymmetric shocks.

Table 1: GDP per capita in Purchasing Power Standards (PPS), 2004,
(EU-25 = 100)

EU-25 Members				CEE non-Members	
Luxembourg	208.0	Spain	96.2	Croatia	46
Ireland	130.8	Cyprus	83.5	Russia	36
Denmark	124.0	Greece	81.6	Romania	31.6
Austria	120.9	Slovenia	78.1	Bulgaria	29.8
United Kingdom	120.7	Portugal	73.9	Turkey	28.9
Netherlands	118.5	Malta	73.0	Macedonia	26
Belgium	116.5	Czech Republic	69.9	Belarus	25
Sweden	115.1	Hungary	62.0	Ukraine	23
France	113.4	Slovakia	51.5	Albania	18
Finland	110.3	Estonia	51.2	Moldova	7
Germany	108.0	Lithuania	48.5		
Italy	106.2	Latvia	47.4		
EU-25	100	Poland	47.3		

(Source: Eurostat and author's calculations)

Comparing GDP per capita between the EU and CEE non-Member countries reveals an even (astonishingly) greater dissimilarity. Croatia is the only country that exhibits similar wealth to that of the lowest-ranking new Members. But then, income values begin to descend progressively, positioning candidate countries Romania and Bulgaria at around 30 percent of the EU-25 average, and ending the list with Moldova with only 7% of EU average! As mentioned earlier, this gap in terms of living standards between the enlarged EU and the rest of CEE region may affect regional stability and security. For example, it can lead to uncontrolled migration flows to the

EU countries, to increased human trafficking in Eastern Europe, or to some other cross-border criminal activities.²

To begin addressing what accounts for this gap, based on the existing literature, I wish to outline some of the values that are common and that vary among the CEECs. The initial classification of the countries is based on the distinction between civilizations drawn by Huntington (1996). Huntington postulated a historical cultural borderline within Europe that divides the Western-Christian peoples from the Muslim and Orthodox peoples. His definition is closely related to religion: Protestant and Catholic vs. Orthodox and Muslim. Hence, it is important to examine what the religious composition in each CEE society is. The second criterion is the different empires under which the concerned people lived for centuries, namely the Habsburg, Russian and Ottoman empires. The links between these empires and specific religions (Protestant, Catholic, Orthodox and Muslim) are obvious, but it can also be assumed that the respective system of government had an independent impact on fundamental values. Thus, I follow Fuchs and Klingemann's examination (2002) and present each country's profile regarding the identity of the Empire that ruled in the past, and whether and how long a country had experienced a Leninist regime. At the end of the section, I show the correlations between the investigated values and the countries' economic performance.

Broad Identification of the CEE Region

The CEE region bridges between the states as diverse as the relatively developed Slovenia in the South-West (just about two million inhabitants) and the developing Ukraine in the East with a population of 50 million, and which emerged in 1991 (upon the collapse of the Soviet Union) with a diverse national identity, profound economic problems, and a poor government (Batt 2003: 3-22).

There are religious divides between the mainly Roman-Catholic Poles, Czechs and Slovaks, and the Orthodox Russians, Belarusian and Ukrainians (see table 2). Although the region has been marked by long periods of peaceful inter-ethnic coexistence, there were also chronic fragmentations and conflicts between states and peoples. The disintegration of the Yugoslav Republic in the beginning of the 1990s, for instance, has brought about what is arguably the most intense European inter-

² For more details, see: Widgren et al. 2005.

ethnic conflict since World War II, especially in Kosovo and Bosnia and Herzegovina.

The first step in the search for commonalities might be to distinguish between the cultural heritages left by the ruling Empires. Table 2 shows the division of the region by the different Empires. While the Habsburg Empire ruled in the Central European countries³, the Baltic countries and Eastern Europe were under the influence of the Russian empire, which left Southern-Eastern Europe under the rule of the Ottomans.

Table 2: Cultural heritages in CEE region

Country	Empire	Leninist regime (LE)	%Protestant	%Catholic	%PC	%Orthodox	%Muslim	%OM
<i>Central European countries</i>								
East Germany	Prussia	41	18	5	23	0	0	0
Czech Republic	Habsburg	41	2	39	40	0	0	0
Slovakia	Habsburg	41	10	73	83	0	0	0
Hungary	Habsburg	43	18	55	72	2	0	2
Slovenia	Habsburg	18	2	69	71	2	1	3
Croatia	Habsburg	18	0	82	82	1	1	1
Poland	Prussia/ Habsburg/ Russian		1	98	99	0.5	0.5	1
<i>Baltic countries</i>								
Estonia	Russian	50	10	0	10	16	0	16
Latvia	Russian	50	19	18	37	18	0	18
Lithuania	Russian	50	2	77	79	4	0	4
<i>South-Eastern European countries (mainly Orthodox)</i>								
Yugoslavia	Ottoman	18	1	6	7	64	8	72
Romania	Ottoman	43	2	5	6	87	0	87
Bulgaria	Ottoman	43	1	1	2	52	12	64
<i>South-Eastern European countries (mixed-Muslim)</i>								
Macedonia	Ottoman	18	0	1	1	45	24	69
Bosnia-Herzegovina	Ottoman	18	2	14	16	26	27	53
Albania	Ottoman	45	0	6	6	20	67	87
<i>Eastern European countries</i>								
Russia	Russian	74	0	0	0	48	5	53
Ukraine	Russian	74	0	6	6	56	0	56
Belarus	Russian	74	0	8	8	54	0	54
Moldova	Ottoman	50	0	0	0	83	0	83

Source: Empire and Leninist regime values are taken from Fuchs and Klingemann (2002) - originally from Reisinger (1999); Religious composition are taken from the World Values Survey 1995-1999; ⁴ PC=Protestant and Catholic; OM=Orthodox and Muslim

³ Poland has disappeared from the European map between 1795-1918, divided by Prussia, the Habsburg and Russian Empires.

⁴ See: <http://www.worldvaluessurvey.org/>

Another commonality is the fact that all the states under discussion have had several decades of communist rule, ending with the dramatic changes of 1989-91. The communist system was a distinctive mode of dictatorship that was characteristic not only by the single-party monopoly of political power, but also by the expropriation of private property and the direct subordination of the economy and society to its political control. Table 2 also shows that there were variations in the periods of time these countries were subject to a more restricted Leninist regime, ranging from as long as 74 years in Eastern European countries and the Baltic countries, to as short a term as 18 years in Slovenia and other ex-Yugoslavia countries. Still, since the fall of the Iron Curtain, all countries have set on the path towards a transition to democracy.

Communism was an experiment in enforcing conformity in this highly diverse region of Central and Eastern Europe. When it proved to be a failure, all countries were heavily challenged with similar obstacles, such as establishing a new multi-party system, enhancing parliament competences for legislation, dismantling the pervasive secret police network, and in particular for our concern, re-privatizing the economy and establishing a functioning market (Batt 2003). In addition, all countries in transition suffered a prolonged period of recession, in contrast to the predictions made by early neo-classical studies (cf. Kolodko 1993).

Although many ex-Yugoslavian countries were distracted from dealing directly with these issues as a result of a decade-long inter-ethnic war, Slovenia managed to escape unharmed, and now stands alongside Hungary and the Czech Republic in the group of states that have moved ahead in political and economic transformation. Speaking of the Czech Republic, national conflicts between the Czechs and Slovaks were the main reason for the disintegration of Czechoslovakia, establishing the Czech Republic alongside Slovakia as two independent states in 1993. Further East, the Baltic republics of Estonia, Latvia and Lithuania, are showing a steady improvement. This stands in contrast to Ukraine, which has only recently begun to show (however ambiguous) signs of escaping the economic and political chaos it had suffered since its celebrated independence.

Table 3 presents some political values that are considered to be important for the modernization of a country in the literature. It is taken originally from the World Values Survey database, and it is presented on the basis of Fuchs and Klingemann's discussion (2002) about the relation between national identities of CEE countries and the future democratic identity of the enlarged Union. Perhaps surprisingly, the support

for democracy (as reflected in the citizens' responses) positively crosses throughout the entire region. Even Albania or Belarus, which are both considered in literature to be 'rogue' countries, show a positive support.⁵ The support for autocracy seems to fade from Central European countries (Poland being an exception), while still remaining relatively strong in Bosnia-Herzegovina, Romania, Russia and mostly in Albania.

Table 3: Political indicators for CEE countries

Country	Support Democ	Support AUT	Support of political system of one's own country	Confidence in governmental institutions	Illegitimacy of violence	Law abidingness
<i>Central European countries</i>						
East Germany	91	2	38	12	85	90
Czech Republic	88	4	33	18	80	86
Slovakia	88	4	36	30	73	82
Hungary	83	5	32	30	80	89
Poland	90	22	-	-	-	83
Slovenia	82	6	28	24	70	85
Croatia	95	13	45	38	87	74
<i>Baltic countries</i>						
Estonia	85	6	30	36	83	91
Latvia	79	8	24	19	83	83
Lithuania	87	15	29	23	76	90
<i>South-Eastern European countries (mainly Orthodox)</i>						
Yugoslavia	88	10	24	29	74	92
Romania	89	22	11	16	77	94
Bulgaria	80	19	36	43	79	96
<i>South-Eastern European countries (mixed-Muslim)</i>						
Macedonia	73	15	21	16	79	89
Bosnia-Herzegovina	87	26	32	57	72	97
Albania	98	65	43	35	93	92
<i>Eastern European countries</i>						
Russia	51	20	7	16	82	85
Ukraine	75	17	13	29	78	81
Belarus	75	17	12	26	83	80
Moldova	71	16	14	33	66	82

Source: World Values Survey 1995-1999; cell entries are percent positive support; - missing values

The support for one's own country's political system seems the highest in Croatia and the lowest in Russia. Similar results are given for the values of confidence in governmental institutions. Regarding illegitimacy of violence (IOV) and law

⁵ In a recent publication of Inglehart and Welzel (2005), they show how contrary to what conceived, Muslim populations' countries project as well extremely high results of support for democracy.

abidingness (LA), these values are highly supported across the region, with the exception of Moldova, that score low in IOV (66), and Croatia, that scores low in LA (74).

I conclude this section by showing the correlations of heritage and political values with GDP per capita (1995-2004 average) in CEE region (see table 4). The examination reveals that most of the heritage values do show a significant correlation with the current standard of living.

Table 4: Correlations of heritage and political (1995) value with GDP per capita 1995-2004 average in CEE region

Variable	Pearson correlation	Sig.	N
Heritage values			
Dummy geographical region group	-.761**	.000	20
Empire index	-.850**	.000	19
Leninist regime (LE)	-.393	.132	16
%Protestant	.318	.213	16
%Catholic	.619*	.008	17
%PC	.645**	.005	17
%Orthodox	-.662*	.004	17
%Muslim	-.448	.071	17
%OM	-.722*	.001	17
Political values			
Support democracy	.359	.132	19
Support autocracy	-.551*	.022	17
Support of political system of one's own country	.391	.134	16
Confidence in governmental institutions	-.192	.477	16
Illegitimacy of violence	-.116	.668	16
Law abidingness	-.019	.945	16

* Correlation is significant at the 0.05 level (2-tailed).

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

The geographical region group dummy (coefficient estimation -.761) indicates that the further the region is from Brussels, the lower its country's wealth. Empire heritage (-.850) points out that countries that have been under the Habsburg rule are wealthier than the countries that were under the Russian rule, and that the countries that were under the Russian rule are wealthier than the countries that were under the Ottoman rule. Still, while the empire heritage does seem to play a role in contemporary wealth of CEECs, the period of time in which these countries were under a more restricted

Leninist regime does not correlate significantly. In turn, this implies that empire heritage may be a stronger indicator than the rule of the Soviet Union in determining path-dependencies economic developments.

Examining the composition of religious groups reveals that the bigger the Catholic/Protestant-Catholic groups in a country are, the higher the standard of living is, while for Orthodox/Orthodox-Muslim population, the bigger these groups are within the society, the lower the country's wealth is. It is worth noting that the religious' composition of 'Protestant only' does not show significant results, in what is a somewhat contradictory manner to Weber's protestant ethic argument.⁶

Surprisingly, the political values do not show at all significant results, with the exception of the support for autocracy regime. Support for democracy, support of one's own country's political system, confidence in governmental institutions, or even illegitimacy of violence - all do not correlate significantly with standards of living. Although liberals have long argued that there is a necessary relationship between capitalism and democracy (Friedman 1962; Hayek 1994), we cannot consider these values as a direct contribution to augmenting wealth, at least not in CEE region during the 1990s. They might, however, play an indirect role (as will be examined later on) by affecting other, more direct values, which would contribute to wealth.

All in all, heritage values offer a fair picture of the varied development of CEECs. Yet, as these values are regarded as 'constant', i.e. as being a part of history and therefore unchangeable,⁷ the search for identifying just what sort of 'variable' values affect convergence remains highly important. This is due to the fact that since only values that can be modified at present time could be considered par public polices to improve the society prosperity. The political values did not give us the expected answers, and this means that new values must be examined.

The Main Argument: Libertarian and Entrepreneurial Values Do Matter

So far I presented a broad historical-cultural values outline that could have explained convergence. Nevertheless, it is now clear that those reasons, as strong as they might

⁶ Weber argued that protestant ethic broke the hold of tradition while it encouraged men to apply themselves rationally to their work. Wealth was taken as a sign in Protestantism that they were of God's elects, thereby providing encouragement for people to acquire wealth. The protestant ethic for that reason provided religious sanctions that fostered a spirit of rigorous discipline, encouraging men to apply themselves rationally to acquire wealth (see Weber 1902[1958]).

⁷ A country's religious composition may change of course, but it could change significantly only in a very long term.

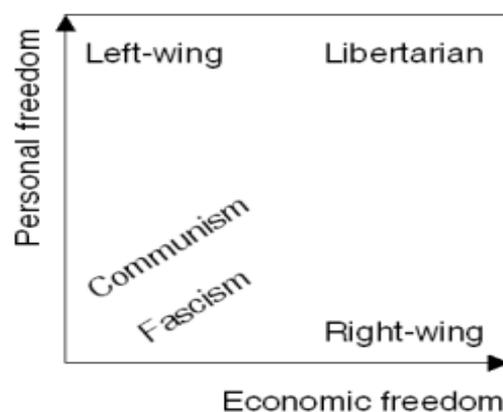
seem, do not in fact provide us with a deeper understanding of why one society greatly differs from another.

At the end of the day, convergence cannot be fully explained without considering individual behavior in households, enterprises, education and other social interaction occurrences. This paper suggests that a deeper social reason can be found by carrying out a comparative examination of libertarian and entrepreneurial values between CEE societies. The following arguments states that by exhibiting, for instance, how people regard the responsibility of the self, or how they regard the economic interaction with others, can help us better understand the variation in the economic performance within the region.

Libertarianism is a political philosophy that advocates the maximization of liberty for every individual. In its ideal type, this position entails that no individual may act to diminish the liberty of any other individual, and so, that every individual possesses an equal amount of liberty. This is usually taken to mean that each person should be permitted by all other persons to act as they please, so long as they do not initiate physical force (this includes persons acting on behalf of governments) (Haworth 1994: 38-58).

Libertarianism stresses high economic freedom and high personal freedom (see figure 1 - the Nolan chart). This approach postulates that the only legitimate use of force, whether public or private, is to protect these rights. For libertarians, there are no 'positive rights', such as governmental guaranty of food, shelter or health care; only 'negative rights', such as the right not to be assaulted, abused, robbed or censored (cf. Maddox and Lilie 1984).

Figure 1: The Nolan chart: positioning libertarianism on a two-dimensional axis



Libertarianism differs significantly from both conservatism and liberalism.⁸ Libertarians claim that conservatives approve of economic freedoms but reject personal freedoms, whereas liberals, inversely, approve of personal freedoms but reject economic freedoms. Libertarians claim all of these freedoms. As figure 1 illustrates, libertarianism is positioned as far as possible from the power-concentrated paradigms such as communism and fascism. The liberal model varies from the libertarian mainly by emphasizing the equality of opportunity between individuals in the economic and political markets as a criterion of justice (Rawls 1993). Equality of opportunity can be guaranteed only through governmental control, i.e., through legislated regulation and redistribution. Governments play a crucial role in the liberal community in shaping the life of an individual. On the other hand, the moral values of a libertarian community demand as small a government as possible and as comprehensive a market as possible. Both models differ from the socialist community, which strives for a wide ranging welfare state and a limited market. The liberal community thus occupies an intermediate position between a libertarian community and a socialist community (Fuchs and Klingemann 2002: 24).

Thus, libertarian values encompass the need for a more competitive market approach and the vitality of institutions' efficiency. This approach puts an emphasis on the behavior of decentralized, non-governmental economic agents that know how to augment welfare. However, as these libertarian values reflect a more philosophical mindset, it should also be translated into more concrete form of behavior. This can be done by operationalizing libertarian values par entrepreneurial ones.

Entrepreneurial Values

The concept of entrepreneurship has a wide range of meanings. On the one extreme of definitions, an entrepreneur is a person of a very high aptitude who pioneers changes, possessing characteristics found in only a very small fraction of the population. On the other extreme, every person that wants to work for him or herself is considered to be an entrepreneur. The word 'entrepreneur' originates from the French word, 'entreprendre', which means, "to undertake". In a business context, it means to start a

⁸ As these terms are used in the United States' discourse.

business. The Merriam-Webster Dictionary presents the definition of an entrepreneur as "one who organizes, manages, and assumes the risks of a business or enterprise."⁹

An entrepreneur can also be regarded as an individual who takes on certain tasks based solely on his or her perception of market opportunities as well as the ways these might be exploited. This person is a risk taker, but also an innovator and arbitrager. Entrepreneurship is not planned by groups or corporate decisions, but by the exploitation of perceived opportunity by individuals, based solely on personal judgments and visions that others either don't see or can't bear the risks of acting upon (Wennekers and Thurik 1999). Hence, the entrepreneurial attitude is always emphasizing the ability of an individual (rather than of the system) to influence his or her own economic situation. This goes straight in line with the libertarian attitude discussed earlier.

Austrian economist Joseph Schumpeter's definition of entrepreneurship (1968) placed an emphasis on innovation, such as new and innovative products, production methods, markets, and alternative forms of organization. Wealth is created when such innovations result in new demand. From this viewpoint, one can define the function of the entrepreneur as one of combining various input factors in an innovative manner to generate value to the customer, with the hope that this new value will exceed the cost of the input factors, thus generating superior returns that result in creation of wealth (Schumpeter 1968).

Schumpeter emerged from the Austrian tradition, and his 'business cycle theory' was influenced by previous work in that tradition. It was Austrian school founder Menger who first elaborated on that paradigm's view of entrepreneurs. According to Menger, entrepreneurs acquire information, make economic calculations, and bear risks due to the uncertainty inherent in all human undertakings (cf. Kirzner 1973 and 2000).

Thus, it is entrepreneurs who coordinate economic activity, bring new processes to fruition and combine labor and capital in new or proven ways. This ultimately affects the economy's overall and aggregated direction. Another important, however often overlooked, advantage to having decentralized entrepreneurs who control the economy's overall direction lays in the fact that decentralized decisions minimize the harm that poor (governmental) choices can do to the entire economy.

⁹ <http://www.m-w.com/cgi-bin/dictionary?book=Dictionary&va=entrepreneur>

Central planning has no such advantage. When national planners are wrong, the entire economy suffers. Thus, entrepreneurial attitude requires a circumstance of market competitive and decentralized environment. It connects strongly to libertarian values by emphasizing the competitive relations between individuals within a society.

Another relation between libertarian values and entrepreneurship can be extracted from the classical problem in political philosophy regarding the legitimacy of property. Libertarians often justify personal property on the basis of self-ownership. This means that the results of one's own work are the sole property of that same individual, who then can exchange them through trade, or give them as a gift or inheritance. This is exactly the requirement for entrepreneurship, since without acknowledging these rights, the incentives for an individual to bear risk and to act in a market are diminishing. Thus, *Libertarian values as a philosophical mindset possessed by individuals enhance the 'real' entrepreneurial attitude of those individuals.*

After establishing the first connection between libertarian and entrepreneurial values, the second issue to resolve is: why is entrepreneurship so important to economic convergence? In the field of economic geography, new attention has recently been called to the study of the cultural impact on regional economic development. The literature on regional clusters progressively lays more emphasis on the role of entrepreneurship and entrepreneurial culture in explaining the economic success of regions (Beugelsdijk and Noorderhaven 2003; Georgellis and Wall 2000; Kangasharju 2000; and Wennekers and Thurik 1999).

Wennekers and Thurik (1999) inspected the relationship between entrepreneurship and economic growth extensively. Using a wide range of dimensions, such as macro theory, historical analysis, and industrial economics, they synthesized these insights to provide a broad picture of how economic growth is linked to entrepreneurship. In their view, entrepreneurship is a behavioral characteristic of individuals. As they put it: '...linking entrepreneurship to economic growth means linking the individual level to the aggregate level' (Ibid., p. 46). They stressed that culture that is conducive to entrepreneurship may have higher start-up rates and more innovation. This, in turn, may influence economic growth.

Entrepreneurship is not only associated with the formation of new businesses, but also with action in the sense of starting something new and innovative. It could be

associated with developing new product-market combinations (cf. Formaini 2001). According to Penrose (1959), entrepreneurs are important for the growth of firms, as they provide the vision and imagination necessary to carry out opportunistic expansions. Entrepreneurial values thus may yield advantages in efficiency, which results in better economic performance on the aggregate level .

In sum, entrepreneurial culture influences convergence by pushing for an increased start-up rate of new firms and by yielding efficiency advantages within existing firms. Social structures may then influence the absorptive capacity and promote the degree to which countries are able to adopt and adapt to new technologies. The second argument then states: *the more the society encompasses entrepreneurial values, the higher the country's standard of living is.*

These specific cultural values are regarded therefore as the explanatory reason for a better convergence towards the EU standard of living. The fruits of integration are only tasty when the society in question is conscious and aware of how to use integration for augmenting its welfare. This is exactly what entrepreneurs can contribute to the society. 'Rule of law' or simply establishing formal institutions are by themselves not enough. What is important is the transformation of the economic-cultural attitude in the society - the 'cognitive evolution' as Adler (2002) puts it. What remains now is the challenging task of operationalizing economic culture. In the next section I will use data from *World Values Survey (WVS)* to try to overcome this difficulty.

The Quantitative Inquiry

As this research is addressed to quantitative but also qualitative scholars, I will outline step-by-step just how I constructed the empirical examination. The first variable to be developed was the index of entrepreneurship. This was composed by the values of support for competition, support for private business ownership and openness to new ideas. In order to create it, I have built a new variable named 'Entrepreneurship index', which is the arithmetical average score of the three selected variables. Table 5 shows the descriptive statistics of those values. All values were taken from WVS. We can see that on average there is a high score for support for competition in CEE region that contributes to the entrepreneurship index, while the values of support for private ownership of businesses and openness for new ideas exhibit lower scores.

Table 5: Descriptive statistics: entrepreneurship index and its components for CEE region

	Mean	Std. Deviation	Min.	Max.	N
Entrepreneurship index	6.0522	1.78102	1	10	19302
Support for Competition	7.5323	2.50331	1	10	20579
Support for Private ownership of businesses	5.6625	2.97829	1	10	20871
Openness for new ideas	4.8000	2.745	1	10	20457

Once we have the new index, we can observe the impact of libertarian values on entrepreneurship. I used an ordinary least squares (OLS) regression method in three different layers. The first model is composed only of standard socio-demographic control variables, namely age and gender. In the second model, I added the ‘country specification’ variable in order to capture the variance of each society, alongside with political and social capital values. The third model is composed of variables taken from all the previous models, with the supplement of libertarian values.

Table 6 shows the results of the investigation. The effects are quite evident. All libertarian values are statistically significant, meaning they contribute strongly and positively to entrepreneurial attitudes. R square has increased from .082 in the first model to .158 in the third model. Income equality is positively related to entrepreneurship (coefficient estimation .096), meaning the more it is assumed that income equality is only preferable and not obligatory, the higher the entrepreneurship index is. The variable that measures responsibility is positively significant (.113), meaning the more people take self-responsibility rather than looking to the government for solutions, the higher the entrepreneurship index is. Furthermore, the more the society believes that hard work leads to better life rather than in sheer luck (.087), the higher the entrepreneurship index is. Looking at libertarian personal freedoms’ performance, the more people accept sexual freedom (.051), the more they support flexible immigration policy (.063), and the more they regard people in need as lazy (.048), the higher the entrepreneurship index is.

Table 6: Coefficient estimates (Standardized) derived from OLS regression predicting *Entrepreneurship* in CEE Members (standard errors in parentheses)

Variable	Model I (N = 14200)	Model II (N = 14200)	Model III (N = 14200)
Socio-demographic			
Age	-.209** (.001)	-.198** (.001)	-.166** (.001)
Gender	-.094** (.028)	-.093** (.028)	-.078** (.027)
Political and social capital			
Country Specification		.140** (.001)	.173** (.001)
Support for democracy		.183** (.021)	.163** (.020)
Confidence in national government		.008 (.016)	-.006 (.016)
Trust in people		.011 (.035)	.016* (.034)
Libertarian values			
Income Equality			.096** (.005)
Responsibility			.113** (.005)
Work Ethic			.087** (.005)
Sexual freedom			.051** (.019)
Immigration policy			.063** (.017)
Why people in need			.048** (.041)
Intercept	6.279** (.062)	7.191** (.105)	7.275** (.140)
F-Test	316.887	264.709	205.110
R ²	.082**	.115**	.158**
Durbin-Watson			1.683
VIF (min-max) ¹⁰			1.009-1.136

* The coefficient is significant, $\alpha < 0.05$; ** the coefficient is significant, $\alpha < 0.01$.

Concerning the socio-demographic variables, age and gender (male as the reference mark) are significantly negative, meaning young people tend to hold a more entrepreneurial attitude than old people (-.166), while women tend to possess less entrepreneurial attitude than men (-.078).

¹⁰ Big values (10 or more) for Variance Inflation Factor (VIF) are regarded as trouble of collinearity. The finding reveals this model is clean from such an effect.

Concerning political and social capital values, it appears that support for democracy is contributing relatively high to entrepreneurship. Recall that we have not found a direct contribution of support for democracy to wealth. But here we can observe its indirect effect. Support for democracy enhances entrepreneurial behavior, which in turn may contribute to wealth. On the other hand, confidence in national government does not show significant results, meaning it does not affect (statistically speaking) entrepreneurial behavior. Trust in people, however statistically significant, exhibits relative little contribution to entrepreneurship.

Hypothesis II

In order to observe how entrepreneurship affects the convergence of CEECs to the EU, I pulled out the mean of the entrepreneurship index for each CEE country. Table 7 presents those results. At the top of the list we find Croatia and the Czech Republic, while Russia and Moldova are situated at the bottom.

Table 7: Entrepreneurship index (1995 values)

CEE Members	Mean	Std. Deviation	N
Croatia	7.0723	1.38729	1120
Czech Republic*	7.0652	1.42208	925
Macedonia	6.9521	1.71552	842
Romania*	6.4672	1.73479	1026
Slovakia*	6.3588	1.59825	458
Turkey	6.3562	1.91671	1823
Hungary*	6.3231	1.56696	817
Slovenia	6.3219	1.48625	904
Bulgaria	6.2016	1.63144	878
Lithuania	6.0878	1.71262	866
Estonia	6.0534	1.52281	955
Latvia	6.0477	1.56582	1133
Poland	5.6036	1.61160	957
Ukraine	5.6008	1.84740	2176
Belarus	5.5670	1.72856	1776
Moldova	5.3592	1.90099	903
Russia	5.1209	1.71493	1743
Total	6.0552	1.78102	19302

* Surveys were conducted during the years 1990-1993.

For the next step I used OLS regression curve estimation in order to observe the impact of entrepreneurship on CEECs' standard of living, as measured by GDP per capita of 2004. I used 2004 GDP per capita, because it captures how the level of entrepreneurial attitude at an initial point in time (1995) has affected henceforth the development of CEECs' economic convergence. Figure 2 shows the results. Entrepreneurship does contribute positively and significantly to convergence. As can be seen in the figure, a positive linear line can be observed, indicating that the higher the entrepreneurship index, the higher the standard of living. It discloses that, on average, an increase of one point in the new index contributes to an increase of 18.3 percent in GDP per capita.

Figure 2: Curve estimation derived from OLS regression predicting GDP per capita (2004 values) in CEE countries by entrepreneurship index

Model Summary

Equation	Coefficient estimate (B1)	Sig.	F-Test	R Square
Linear	18.374	.034	5.424	.266

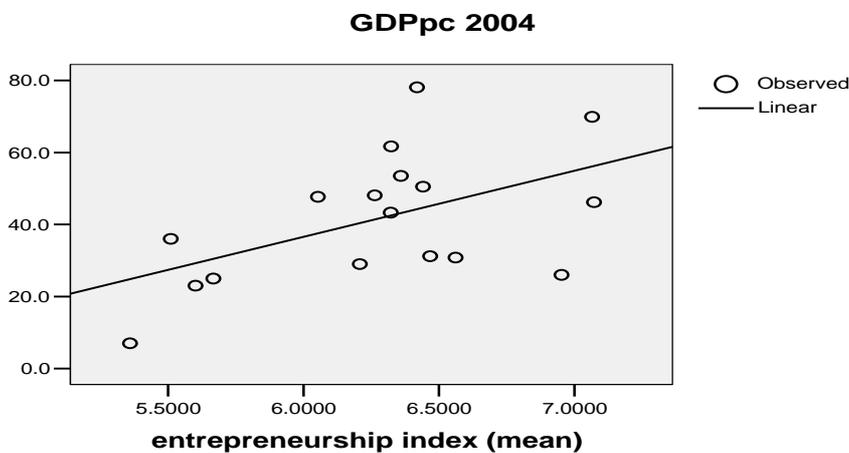


Figure 2 thus reveals that in contrast to the political variables (which were not correlated significantly with wealth¹¹), the entrepreneurial index exhibits a positive and significant contribution to the standard of living. And so, although we cannot claim causality between entrepreneurship and wealth in the formal sense, the lack of

¹¹ Again, with support for autocracy as the exception.

significant correlations of the other variables indicates that they do not fulfill even the first criterion of causality, granting the new index superiority.

Concluding Remarks

The goal of this paper was to seek out a deeper explanation behind the relative success of some CEE countries to converge closer than others to the EU standard of living. I argued that such a deeper reason relates to the libertarian and entrepreneurial values that are constituted within a society. The more these values are acknowledged and implemented by the citizens, the more their country converges closer.

While historical heritage values in Central and Eastern Europe, such as geographical distance, empire heritage and the composition of religious groups, do show significant correlations with the current standard of living, the political-cultural values do not show such significant results at all, with the exception of the support for autocratic regime.

Yet, the new arguments proved to be significant. By using a comparative research to illustrate cross economic-cultural variation between the national arenas, libertarian values were found to exist to various degrees in the CEE societies, as well as to have a significant impact on entrepreneurial values. The philosophical mindset that emphasizes the responsibility of the self and the maximization of liberty for every individual proved to be directly connected to entrepreneurial values. These entrepreneurial values, as reflected in the support for competition and private business ownership, and which put emphasis on innovation, have been found to have a positive and significant contribution to CEECs' convergence.

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