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978-0-521-86653-8 - Economic Liberalism and Its Rivals: The Formation of International
Institutions among the Post-Soviet States

Keith A. Darden

Excerpt

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PART ONE

THEORY AND METHODOLOGY

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I

A Natural Experiment

In 1921, after the Bolshevik forces defeated the White Armies of the Russian Empire and completed their reconquest of tsarist territories, they found themselves in control of a vast and heterogeneous swath of Eurasia. The inhabitants of their new dominion were overwhelmingly rural – primarily peasants or nomads – the vast majority of whom were unschooled, illiterate, and devoid of national identity, instead identifying themselves by their family, tribe, or village, or simply as “people from here.” Aside from the fact that they were all now subject to Soviet control, the peoples of Eurasia had very little in common with one another. They spoke more than 150 different languages and countless dialects. Most were linked to their countrymen by neither road nor rail. Heterogeneity, insularity, and isolation were the order of the day.

Seventy years of Soviet control changed all of that. Over the subsequent decades, the peasants and nomads were systematically collectivized, educated, electrified, urbanized, industrialized, nationalized, organized, terrorized, surveilled, and ruled in much the same way across the vast territory of the Union of Soviet Socialist Republics (USSR). The result of this methodically imposed project in social and political engineering was that by 1991, whether one lived in Tashkent or Tula, one was governed by identical political institutions, participated in the same centrally planned economy, and studied similar types of texts in similar schools. As famously dramatized in *The Irony of Fate*, a Brezhnev-era comedy, one even walked streets with the same layout and the same names, lived in the same apartments, sat on the same furniture, and ate off the same dishes. In short, by 1991, both the formal structures of the state and the informal organization of everyday life had become standardized throughout Soviet territory in a way that is historically unprecedented.

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It is precisely because of the peculiarity of the region's history that it provides an excellent opportunity to explore the underlying sources of international order. As a result of the high level of Soviet standardization, the collapse of the Soviet Union into 15 independent states initiated a unique natural experiment in the formation of international institutions. As new states, the 15 former Soviet republics had no prior international institutional membership; all were starting from scratch. Moreover, the legacy of Stalinist planning created what statistical methods typically cannot: a level of control akin to laboratory conditions. In short, the collapse of the USSR left 15 states with remarkable historical and institutional commonalities, facing very similar economic choices and at the same moment in history.

A careful examination of the results of this experiment will provide the core theme of this book. In particular, I will examine why, despite all of their political, economic, and institutional commonalities, the post-Soviet states followed different courses with respect to membership in international economic institutions. Since achieving independence in 1991, the post-Soviet states have chosen three distinct institutional arrangements for governing their trade relations with other countries, and the divergence is quite stark. By the end of their first decade of independence, Kyrgyzstan, Estonia, Latvia, Georgia, and Lithuania adopted free trade policies and secured rapid entry into the World Trade Organization (WTO). Russia, Belarus, Kazakhstan, and Tajikistan had formed a regional economic union and a customs union (CU) with a protectionist common external tariff. Uzbekistan, Turkmenistan, and for much of the decade Ukraine and Azerbaijan pursued autarkic strategies, erecting barriers to trade and eschewing membership in international trade institutions. In sum, with the freedom of political independence, the new states forged three different paths during the 1990s: rapid entry into Western multilateral institutions, the formation of a regional bloc, and the pursuit of national autarky. Similar states made very different choices (Figure 1.1). Why?

The predominant theories in international relations have clear arguments about why states form, join, and comply with international institutions and should, in principle, have sufficient explanations for why the various post-Soviet republics would proceed along different paths. *Realists* maintain that international institutions are formed by powerful states to serve their own interests and to force weaker states into compliance with their demands. *Liberals* suggest that states join international institutions to reduce transaction costs or to enable a winning coalition of commercial interests to profit from them materially. More recently, *constructivist* scholars have taken the position that states join institutions and select policies that are consistent

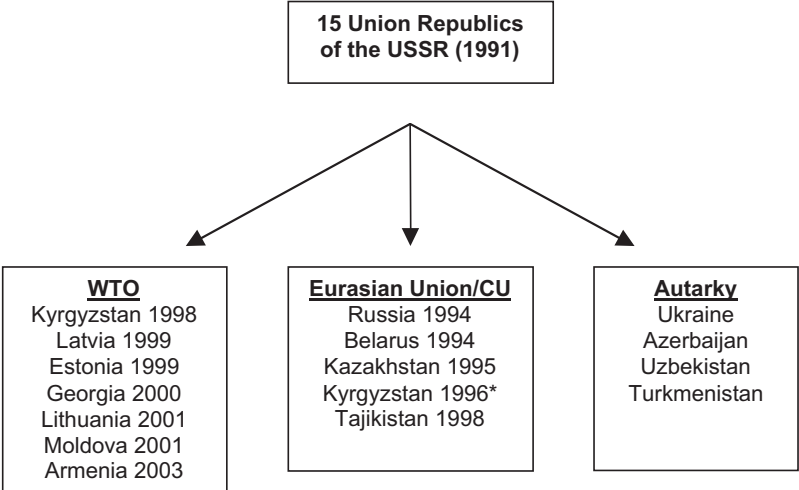


FIGURE 1.1. International economic institutions of the post-Soviet states. *Note:* Kyrgyzstan formally signed the Customs Union agreement but never adopted the common external tariff. See Chapter 8.

with their identity; in other words, a state’s self-conception will determine what it wants and the institutions to which it wishes to belong. Each of these schools of thought makes attractive claims that I will examine later in detail, but a few comparisons make clear the need to look beyond traditional theory for our explanation.

Take, for example, the cases of Moldova and Estonia. Aside from membership in the Soviet Union, these two small countries hold in common many of the factors that traditional theories would draw on to explain a country’s choice of international institutions. Constructivists would note that both countries were late additions to the Soviet Union; neither country’s present-day territory was fully subsumed into the USSR until after World War II. In both countries, strong anti-Russian and anti-Soviet nationalist organizations mobilized popular sentiment for independence during the waning years of the USSR, and both governments boycotted the 1991 referendum on the preservation of the Soviet Union. Realists would note that upon becoming independent, both Estonia and Moldova were small, militarily feeble countries with significant Russian minorities. Moreover, the economic profiles of the two countries were quite similar: both countries relied heavily on agriculture, depended on subsidized energy imports from Russia, and traded almost exclusively with other Soviet republics. On the basis of the similarities outlined previously, conventional theories would predict that these two

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countries would follow analogous routes with respect to their membership in international institutions.

Indeed, in the early 1990s, both countries behaved much the same way. Both rejected membership in the Commonwealth of Independent States (CIS), and both cut their major economic ties with Russia and turned to Western partners for their energy supply. And, unfortunately, both countries suffered several years of sharp decline in gross domestic product (GDP) following the breakup of the Soviet Union. Yet in 1994, the paths of these two countries radically diverged. Estonia began to pursue rapid entry into the WTO and the European Union, while Moldova reversed course by joining the CIS. Moldova, in fact, began to privilege trade with its former Soviet partners and even sold its national energy network to the state-owned Russian firm, Gazprom. Given these two countries' strong nationalist pasts, analogous production profiles, and similar weaknesses with respect to their neighbors, the emerging differences in their institutional trajectories have been puzzling.

The story of Belarus and Ukraine is similar. These two countries, like Estonia and Moldova, held in common most factors that conventional theories consider to be important in explaining states' motivations to join international institutions. Neither country predated the Soviet Union or had a significant history of self-rule; in fact, both were essentially administrative units created by Soviet bureaucrats. Both countries' economies were constructed according to an identical plan, producing the same highly industrialized workforce and the same distribution of production across different sectors. In both countries, anti-Russian or anti-Soviet nationalism was, at best, a "minority faith"; consequently, in the 1991 referendum, both countries voted overwhelmingly to remain in the Soviet Union.¹ When the USSR disintegrated, both countries also inherited large, advanced military forces and nuclear weapons. Yet despite these historical, economic, and strategic commonalities, Belarus has ardently advocated the formation of a customs union while Ukraine has shunned its neighbors by establishing a protectionist tariff and rejected membership in both regional and international trade institutions.

We need not restrict our view to Eastern Europe; similar comparisons exist between Kazakhstan and Uzbekistan, Kyrgyzstan and Tajikistan, and

¹ Andrew Wilson, *Ukrainian Nationalism in the 1990s: A Minority Faith* (Cambridge: Cambridge University Press, 1997); Keith A. Darden, "The Origins of Economic Interests: Explaining Variation in Support for Regional Institutions among the Post-Soviet States" (Ph.D. Dissertation, University of California, Berkeley 2000).

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Georgia, Armenia, and Azerbaijan. Throughout the former Soviet Union, we find countries in similar strategic circumstances, with similar economic structures, and similar forms of national identity making different institutional choices. Why?

The argument of this book is that the root of these different institutional trajectories lies in the idea-driven choices of state leaders. What differentiates the post-Soviet states have not been their economic circumstances or their inherited institutional structures, but rather the particular economic ideas of the new governing elites in each state since 1991. Amidst the corruption, violence, and impoverishment of the region after the collapse of the Soviet Union lay a political battle among groups that differ fundamentally in their economic ideas, their ideas about the way that economies function and the best means of ordering social and economic life. This book is about the nature and outcomes of this political struggle, and about how economic ideas shaped the way that governing elites of the post-Soviet countries have defined national economic interests and charted a course in international affairs.

In identifying economic ideas as a critical variable, I seek to draw on, and contribute to, a broad collective endeavor spanning several decades of research in international and comparative politics that has sought to demonstrate, in the succinct phrase coined by Peter Hall, the “political power of economic ideas.”² In doing so, I have been fortunate to enter a literature where some of the fundamental claims have been ably demonstrated. Peter Hall’s landmark studies of Keynesianism and monetarism made a compelling case for the role of economic paradigms in shaping domestic economic policy. John Ruggie, in a seminal 1983 article in *International Organization*, detailed how the emergence of an Anglo-American economic consensus on Keynesian “embedded liberalism” underpinned the formation of the principal postwar international economic order.³ This book contributes to these landmark studies, and the rich literatures they have spawned, with new cases, new methods for identifying and testing for the effects of economic ideas, and new theory.⁴

² Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton, N.J.: Princeton University Press, 1989); Peter A. Hall, “Policy Paradigms, Social Learning, and the State: The Case of Economic Policy-Making in Britain,” *Comparative Politics* 25, no. 3 (April 1993): 275–296.

³ John Gerard Ruggie, “International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order,” *International Organization* 36 (1982): 195–231.

⁴ Indeed, the study of economic ideas is one of the few areas of the social sciences where a case can be made that the work of scholars has been cumulative, in terms of both the steady addition of new cases and the refinement of theory. Some of the richest empirical and theoretical

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The post-Soviet states also provide a challenge to these earlier accounts, as the primary explanatory factors that existing ideational arguments draw on to explain change or variation were constant across the 15 post-Soviet states. The prior political-economic institutions identified by Hall, Sikkink, Dobbin, and others as important to the selection of ideas were common to all 15 post-Soviet states. The formative experience of economic hardship, a factor

studies of role of economic ideas in shaping policy have been of the Latin American countries. Following Albert Hirschman's seminal work, *National Power and the Structure of Foreign Trades* (Berkeley: University of California Press, 1945), Emmanuel Adler, *The Power of Ideology: The Quest for Technological Autonomy in Argentina and Brazil* (Berkeley: University of California Press, 1987), Kathryn Sikkink, *Ideas and Institutions: Developmentalism in Brazil and Argentina* (Ithaca, N.Y.: Cornell University Press, 1991), and more recently Victoria M. Murillo, "Political Bias in Policy Convergence: Privatization Choices in Latin America," *World Politics* 54 (2002): 462–493, have shown that economic ideas shaped the formation of economic institutions, industrial strategy, and the role of the state in the economy. Focusing on Russia's regions, Yoshiko Herrera, *Imagined Economies: The Sources of Russian Regionalism* (New York: Cambridge University Press, 2005) has made a very compelling case that attitudes towards the central government were based more on economic ideas of the provinces than the elusive reality of their financial relations. Studies of Europe and the United States have similarly shown the relevance of specific sets of economic ideas or cultures to broad institutional changes in the relationship of the state to the market and the formation of economic institutions. Hall and Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002), have identified the role of "policy paradigms" such as Keynesian economics and monetarism in shaping the institutions and political economies of Western Europe. Frank Dobbin, *Forging Industrial Policy: The United States, Britain, and France in the Railway Age* (Cambridge: Cambridge University Press, 1994), points to the distinct economic cultures that determined different institutions that evolved for the management of railways in France, Britain, and the United States. And Kathleen R. McNamara, *The Currency of Ideas: Monetary Politics in the European Union* (Ithaca, N.Y.: Cornell University Press, 1998), has made the case for the role of shared economic ideas in the convergence on monetary union in the European Union in the 1990s. In international relations, in addition to Ruggie's work, we have Ikenberry's careful demonstration of the emergence of a consensus of Anglo-American economic experts on the ideas that underpinned postwar international monetary and trade institutions. The work of John S. Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton, N.J.: Princeton University Press, 1982), and Judith Goldstein, *Ideas, Interests, and American Trade Policy* (Ithaca, N.Y.: Cornell University Press, 1993), showed that U.S. international monetary and trade policy could not be explained without reference to an evolving set of economic ideas. Ernst Haas, *When Knowledge Is Power: Three Models of Change in International Organizations*. (Berkeley: University of California Press, 1990) has demonstrated how the evolution of the institutions and policies of the World Bank reflected the emergence of a scientific consensus among its economists about the goals and causes of development. This book also finds its roots in Keohane and Goldstein's initial theoretical formulation of the role of "causal ideas" in Judith Goldstein and Robert O. Keohane, "Ideas and Foreign Policy: An Analytical Framework," *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*, ed. Judith Goldstein and Robert O. Keohane (Ithaca, N.Y.: Cornell University Press, 1993), pp. 3–30.

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highlighted by Ruggie, was endured by each of the former Soviet republics. Similarly, the factors pointed to by some contemporary constructivist scholarship – the norms borne by representatives of the Western international institutions and transnational civil groups,⁵ or the dictates of “world culture”⁶ or “international society”⁷ in the late 20th century – were common to all. Thus, although the approach here shares much with the existing ideas literature, it necessarily develops an alternative because the key variables of those studies are constants in the post-Soviet cases; they cannot explain the variation.

WHY AND HOW IDEAS MATTER: THEORETICAL FOUNDATIONS

The full explication of the theory informing this book’s explanation of the institutional choices of the post-Soviet states will be the primary task of the next chapter, but its commonalities with and differences from the existing literature can be summarized by answering four basic questions central to the theory of economic ideas: Why do economic ideas matter? How do economic ideas matter? What is the relationship between ideas and interests? And why are some ideas selected rather than others?

Consistent with much of the constructivist literature, I argue that the main reason why ideas matter is that knowledge of causation is inherently imperfect. In the academic discipline of international relations, this point is not only epistemological – i.e. there are inherent limits on the capacity of the researcher to infer causal relationships – but more importantly, it is also ontological: imperfect knowledge is an elemental attribute of the actors and interactions that we study. Actors inherently lack objective knowledge of the relationship between cause and effect in economics and other matters in the world. Because of these limitations, we should not characterize

⁵ Martha Finnemore and Kathryn Sikkink, “International Norm Dynamics and Political Change,” *International Organization* 52 (1998): 887–917; Margaret E. Keck and Kathryn Sikkink, *Activists beyond Borders: Advocacy Networks in International Politics* (Ithaca, N.Y.: Cornell University Press, 1998); Thomas Risse and Kathryn Sikkink, “The Socialization of International Human Rights Norms into Domestic Practices: Introduction,” in *The Power of Human Rights: International Norms and Domestic Change*, ed. Thomas Risse, Stephen C. Ropp, and Kathryn Sikkink (Cambridge: Cambridge University Press, 1999).

⁶ John W. Meyer and Brian Rowan, “Institutionalized Organizations: Formal Structure as Myth and Ceremony,” in *The New Institutionalism In Organizational Analysis*, ed. Walter W. Powell and Paul J. DiMaggio (Chicago: University of Chicago Press, 1991).

⁷ Alexander Wendt, *Social Theory of International Politics* (Cambridge: Cambridge University Press, 1999); Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (London: Macmillan, 1977); Barry Buzan, “The English School: An Underexploited Resource in IR,” *Review of International Studies* 27, no. 3 (2001): pp. 471–488.

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any state's actions as responding directly to the "objective" structural factors highlighted in materialist theories and models. Instead, political actors rely on inference, "paradigms," informed conjecture, and imagination – in short, on their ideas – to identify relevant causal relationships and determine appropriate policy. Actors use their ideas about causation (quite literally) to make sense of the world; not only do states use their ideas to characterize the problems they face, but these ideas also expound the range of options available for dealing with these problems. More than simply "road maps,"⁸ these ideas constitute the building blocks of our understanding of the world.

This is not to suggest that actors' ideas matter only under conditions of uncertainty, as many of the best studies of the role of ideas have assumed, or that ideas are more likely to have a bearing in situations that are novel⁹ or especially complex,¹⁰ or where cost-benefit analyses of different courses of action are especially difficult to calculate. By most accounts, the greater is the uncertainty, the less that actors can rely on the objective situation, and the greater the effect of their ideas.

However, the claim that I will make is somewhat different and ultimately much stronger. Because uncertainty is a constant feature of human understanding, rather than merely an occasional or variable condition, actors' ideas play just as much of a role when actors are "certain" or highly confident of the costs, benefits, and probable outcomes of a given set of circumstances as when they experience new or ambiguous situations. Actors' feelings of certainty, I argue, do not imply objective knowledge, but rather only reflect the degree of confidence that actors have in their ideas, and the extent to which those ideas have come to be taken for granted. Novel situations might make the contingency and fragility of mental constructs more apparent, but their subjectivity is nonetheless ever-present. In other words, it is not the case that actors sometimes calculate their interests on the basis of objective conditions and at other times resort to their ideas, but rather that actors' reasoning *always* rests on a set of ideas about causation that are inherently and inescapably subjective, even when they are grounded in and consistent with known experience. For this reason, it is only meaningful to speak of actors' economic ideas, not their objective understanding of economic causation.

⁸ Goldstein and Keohane, "Ideas and Foreign Policy."

⁹ Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002), pp. 31–32.

¹⁰ Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," in "Knowledge, Power, and International Policy Coordination," ed. Peter Haas, *International Organization* 46 (special issue 1992): 1–35.

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II

The question of *how* ideas matter clearly affords multiple answers. In this book I focus primarily on one: the fact that economic ideas determine economic and institutional preferences. The logic behind the argument that economic ideas – actors’ ideas about how the economy works – determine or “induce” actors’ preferences regarding different institutional arrangements is straightforward. Political actors do not bear any natural predisposition toward certain economic institutions; for example, they do not naturally prefer customs unions to free trade in the way that a person might prefer apples to pears. Rather, governments may have a more basic preference for wealth or economic growth and might then believe (to continue the example) that a customs union is a better means to secure wealth than is free trade. Our preferences for political and economic institutions are less like tastes, i.e. fixed and exogenous, than they are like our preferences for tools; they are endogenous to our beliefs about how things work. What links a preference for growth to support for institutions such as a customs union is a set of economic ideas that establish a causal link between the institutional means and the economic ends.

If we assume that actors form international institutions because they believe they can derive benefit from them, it then follows naturally from this reasoning that shared economic ideas form the basis of international economic institutions. This does not mean that institutions are always consensual, or that some participants do not benefit from a given arrangement more than others, but rather that underpinning any institution is a core set of economic ideas and beliefs by which a state judges an institution’s utility, merit, and function. Ruggie labels this ideational bedrock an institution’s “social purpose.”¹¹ And while it is often the case that different actors support institutions for different reasons – that is to say, on the basis of different sets of ideas – institutions must be grounded in a set of shared ideas that lead most participants to believe in the institution’s effectiveness. When such beliefs are undermined – as in Western Europe during the Great Depression, or in the Soviet Union in the late 1980s – it is remarkable how quickly institutions that once seemed to be permanent fixtures can dissolve.¹²

On the question of how interests and ideas relate, I will suggest that economic and institutional preferences are not only induced by ideas about causation – of which economic ideas are one type – as I have suggested

¹¹ John Gerard Ruggie, “Territoriality and Beyond: Problematizing Modernity in International Relations,” *International Organization* 47 (1983): 139–174.

¹² Mark R. Beissinger, *Nationalist Mobilization and the Collapse of the Soviet State* (Cambridge: Cambridge University Press, 2002), pp. 2–3.