Creating Social Capital in Russia: The Novgorod Model

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Summary. — The Novgorod region of Russia displays high levels of economic performance, trust in government, and associational activity—three common indicators of high levels of social capital. This paper traces the high level of social capital in the region to local government’s efforts to promote an historical image of Novgorod as a vibrant mercantile democracy, and argues that local government policies have contributed to the rapid development of social capital in the region. The region’s success shows that, even in the absence of a national consensus, local governments can do much to establish common social values and priorities for their communities. © 2001 Elsevier Science Ltd. All rights reserved.

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1. COMPETING VIEWS OF SOCIAL CAPITAL

There are two distinct approaches to the role of social capital in economic and political development. One view, which I term “nonstatist,” holds that the state’s role in generating social capital is trivial at best, or destructive at worst. Nonstatists believe that social capital can only be generated outside of the government sphere. If it arises within or with the support of government, then by definition it cannot be social capital (Lehning, 1998, p. 240). The level of social capital in a society can be directly correlated with the ability of groups to pursue agendas distinct from and opposed to the state. In sum, government can destroy social capital, but it cannot create it (Putnam, 1993; Fukuyama, 1995; Etzioni, 1993; Wacquant, 1998; Wilson, 1987). They cite as a cautionary example the experience of communist societies (Rose, 2000; Aberg, 2000). As Nichols (1996) has put it, “the hallmark of the Soviet system was the purposeful destruction of what is now understood as ‘social capital’ ” (1996, p. 631).

Opponents of this view, whom I call “statists,” counter that the nonstatist view is historically inaccurate. In fact, social capital needs formal state institutions to flourish. According to Walzer, “civil society requires political agency. And the state is an indispens-
inimical to the growth of social capital. Statists, by contrast, believe that social capital needs formal institutions to flourish, and that “careful planning can create social capital capable of reshaping its local context” (Warner, 1999, p. 374; Skocpol, 1996; McClennen, 1997; Evans, 1995, 1996).

Perhaps nowhere does this debate have greater significance than in former communist countries where, under the old regime, the state sought to become the focal point for all social activity. Nonstatists looking at this region see abysmally low levels of social capital and little prospect for improvement in the near future. Statists, by contrast, at least imply that something can be done by government to change this.

In this context, the Russian region of Novgorod presents a curious and inspiring picture. Not only has the region done much better than its neighbors at implementing economic and political reforms (Petro, 1999; Ruble & Popson, 1998), but for many years now it has displayed an unusually high level of voter support for reform candidates, far higher than its level of wealth, urban concentration, ethnicity, and age distribution would predict (Wyman, White, McAllister, & Oates, 2000).

Given the low assessment of Russia’s progress toward democracy and markets, explaining Novgorod’s success poses an interesting challenge. By most indicators, Novgorod’s success can best be explained by high levels of social capital in the region. Yet, if levels of social capital were virtually nonexistent when the Soviet Union collapsed in 1991, how could it have developed so quickly in such a short amount of time, and in such apparent contrast to trends in the rest of the country? The answers to these questions, as we shall see, shed light not only on the role social capital plays in creating favorable conditions for socioeconomic development, but also on the capacity of governments to create social capital from scratch.

2. MEASURING SOCIAL CAPITAL

The key to a workable definition of social capital lies in finding tangible measurements of trust. Trust is good for economic activity because it enhances the flow of information essential for entrepreneurial activity, making long-term investments in projects and fixed assets more attractive (Wilson, 1997, p. 745). Some even go so far as to say that such trust is “a precondition for economic success” (Paraskevopoulos, 1998, p. 159).

One of the first to discern a linkage between trust and social capital was James S. Coleman, who argued that, much like other forms of capital, social capital could be expected to have tangible economic and political benefits.

... social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence. Like physical capital and human capital, social capital is not completely fungible, but is fungible with respect to certain activities.

Social capital ... is created when the relations among persons change in ways that facilitate action. ... it is embodied in the relations among persons. Physical capital and human capital facilitate productive activity, and social capital does so as well. For example, a group whose members manifest trustworthiness and place extensive trust in one another will be able to accomplish much more than a comparable group lacking that trustworthiness and trust (Coleman, 1990, pp. 302, 304).

Social capital also “improves the efficiency of society by facilitating coordinated action” (Widner & Mundt, 1998, p. 2). This sort of efficiency also generates trust, which can be measured in two ways: first, by looking at norms of reciprocity sustained by socialization and sanction—trust in public institutions—and second, from the dense networks of civic engagement that result in “generalized trust.” While a high level of interpersonal trust is not to be automatically equated with trust in government, some have argued that a high level of trust in government necessarily reflects a high level of social capital (Foley & Edwards, 1998b, p. 133; Levi, 1996, p. 46). In sum, the performance of both government and economy should be expected to reflect the levels of social capital in a society, and several studies now support this contention (Paraskevopoulos, 1998; Stolle & Rochon, 1998; Fox, 1996; Putnam, 1993).

Another measure of social capital particularly favored by nonstatists is associational activity. But while there is widespread agreement that dense networks of active local organizations indicate a high level of social capital, there is little consensus on how to measure density, or whether all types of social networks have an equal impact on the formation of social capital. Putnam, perhaps the best known advocate of the nonstatist position, feels that almost any
kind of associational activity (bowling leagues, birding societies, choirs) can generate generalized trust. He therefore puts great store in measuring aggregate associational activity, equating it with the very "flesh and bones" of civil society. His critics, however, question whether trust among members of one group automatically extend to members of other groups. They suggest that different types of associations can create very different kinds of social capital, including what Ostrom has called the "dark side" of social capital (Levi, 1996, p. 52; Stolle & Rochon, 1998, pp. 57, 61). Such an "excess of community" can undermine trust for others, hamper innovation and even lead to the creation of negative social capital (Woolcock, 1998, p. 171; Levi, 1996, p. 51; Banfield, 1958).

According to Gaddy and Ickes (1999), much of the Russian economy is beset by such negative social capital. Regional and national elites in post-Soviet Russia have a mutual interest in preserving "value destroying" Soviet era enterprises. In order to preserve their own influence these elites make use of their "relational capital"—personal connections with government officials and oligarchs—to maintain their personal influence (1999, p. 80). In this destructive cycle, which they have dubbed "the virtual economy," ownership of enterprises nominally changes hands but no real economic reform ever takes place.

To summarize: while there is widespread agreement that economic prosperity, trust in government, and associational activity all reflect high levels of social capital, statists tend to see this as the result of reciprocity and sanctions that generate trust in social institutions (first and foremost—government), while nonstatists attribute high levels of "generalized trust" to spontaneous social interaction. Now, let us look at how Novgorod fares in these three categories.

3. NOVGOROD'S ECONOMIC SUCCESS

The Novgorod region is situated in the northwestern economic area of Russia, 3 hours southeast from St. Petersburg along the main highway to Moscow. The region has a population of approximately 740,000 and covers an area approximately the size of West Virginia. The largest city, Novgorod-the-Great, has about 230,000 inhabitants, followed by Borovichi, with 61,000 and Staraya Russa with 40,000. The urban population constitutes about 71% of the region's inhabitants, 96% of whom are ethnic Russians.

Despite its lack of natural resources, extensive military-industrial infrastructure, and large rural population, the region has been a model of economic growth and social stability (Cottrell, 1997; Tanner, 1997; Corwin & Cleave, 1999; Foreigners, 1999). By the end of 1999, total foreign direct investment in the region was close to half a billion US dollars, and the region's per capita level of investment, both foreign and domestic, was second only to that of Moscow (see Figure 1).

Such impressive results were accomplished thanks to "an elite consensus around liberal economic policies" (Ruble & Popson, 1998, p. 435). With the collapse of federal government subsidies in the early 1990s, the region desperately needed alternative sources of revenue. After consulting with local business leaders and

Figure 1. Annual foreign direct investment in the Novgorod region (in millions of US$), 1993-99. (Source: Podoprigora et al., 2000, p. 9.)
trade union officials, the governor’s economic team, headed by First Vice-Governor Valery Trofimov, came up with a three-pronged strategy for economic recovery that involved: (a) promoting small and medium-sized businesses; (b) attracting foreign investment; and (c) reforming the housing market (Trofimov, V. I., First Deputy Governor of the Novgorod Region, interviewed on April 10, 1997).

The administration reasoned that, in the long run, the best vehicle for creating new jobs would be small and medium-sized businesses, so in 1993 it set up one of the first regional funds in Russia to support small business initiatives. Since then the number of small and medium-sized businesses has gone from 3,349 in 1994 to over 8,000 in 1998—one for every 93 citizens, a rate comparable to that of some regions of Western Europe (Ruble & Popson, 1998, p. 437). These businesses, still relatively new feature on the Russian economic landscape, now employ 25% of the working age population and contribute more than 20% of the regional budget (Soobshchenie, 2000b).

Even as the labor force gradually shifted from large-scale enterprises to smaller ones, a way had to be found to prevent sharp increases in unemployment and preserve the social services the population depended on. By late 1993 the administration reluctantly concluded that neither the federal government, nor Russian businessmen were likely to invest in the region. The only solution was to attract large amounts of foreign direct investment into the region through long-term tax holidays. In 1999 more than 180 companies had invested in the region, employing more than 18,000 workers, providing nearly two-thirds of local industrial production, and over 40% of regional budget revenues (Alieva & Omarov, 1999, p. 10; Verkhodanov, Igor V., chief aide to the Head of the Novgorod Regional Duma, interviewed on May 24, 1999). Most of this investment has gone into food production and processing, an area where investors can take advantage of the region's geographical location between Moscow and St. Petersburg to minimize transport costs.

The final component of the administration’s strategy involved local cost-cutting measures. Housing reform provided a major source of savings for the regional budget. The transfer of 98% of apartment complexes to municipalities has reduced the burden on local enterprises by over 134 million dollars. Privatization, competitive bidding for services, tenant cooperatives, and fee increases have reduced expenditures on housing to just 6% of the region’s budget (Tyshkevich & Bryuzgin, 1998, p. 15). The money saved on communal housing and cultural initiatives has paid for initiatives in other areas, such as a regional stabilization fund which depressed districts can draw from and a regional small business fund. The region has steadily reduced its dependence on federal subsidies and anticipates becoming a net donor to the federal budget in fiscal year 2002 (Verkhodanov, Igor V., chief aide to the Head of the Novgorod Regional Duma, interviewed on 8 May 2000).

The impact of these economic reforms on people’s lives has been equally dramatic. The region’s fiscal stability, lack of pension or wage arrears (for government employees), and high quality of life have become legendary. While Russia’s GDP declined by 2.7% annually from 1995–98, the same period saw an annual growth of 3.8% for the Novgorod region (Lewis, 1999). In 1999 industrial production grew 13.8%, compared to 8% for Russia, while unemployment rates fell by one-third (Soobshchenie, 1999b; Soobshchenie, 2000a). During the first quarter of 2000 regional salaries before taxes, adjusted for inflation, rose by 9.4% compared to the first quarter of 1999 (O sotsial’no-ekonomicheskoi, January–April 2000).

Of course, Novgorod is not without its problems. The administration’s own economic committee notes that despite a four-fold increase in profit margins for medium and large-scale industries in 1999, nearly 40% of local industries are still showing losses because they are burdened by astronomical debts (O sotsial’no-ekonomicheskoi, January–April 2000).

The ruble devaluation of August 1998 also hit the region hard. New foreign direct investments in the region were scaled back more than 40% in 1998, resulting in a 21 million ruble shortfall in the 1998 budget. Commercial lending within the region fell by nearly a quarter, and for the first time in years pension payments were delayed in August and September 1998. The region’s flagship investor, Cadbury–Schweppes, even suspended production for one month (Koval’, 1998).

Despite these setbacks, however, the region has managed to recover faster than many others. During the first half of 1999 investments in the region increased by more than 80% (Soobshchenie, 1999a). By March 1999 the region’s other major investor, the Danish
chewing gum manufacturer Dirol, had returned to a level of profitability that allowed it to cut short its tax holiday from regional and local taxes, and that August opened a second $100 million facility in the region that will allow both packaging and local manufacture of their products. As a result, total Danish investment in the region has now overtaken the original $120 million put down by the British chocolate giant Cadbury–Schweppes in 1996.

Overall, the regional government has been quite effective in managing a transition that has proved beyond the skills of the national government: making the local economy globally competitive without abandoning the social support network. In explaining why, local officials point to the fact that, unlike the rest of Russia, nearly all the money that came into Novgorod went into the creation of jobs rather than into speculative investment (Russia, 1999). Just as important, they insist, is the fact that local government has been able to inspire the same sort of trust among the local populace that it has among foreign investors.

4. TRUST IN LOCAL GOVERNMENT IN NOVGOROD

Despite initial tensions, the regional administration has turned out to be very supportive of local self-government, if for no other reason than that it increases the efficiency of social services and reduces the financial burden on the regional government. As early as 1995 the regional Duma passed four basic laws regulating local self-government within the region. Five more laws were soon passed by the city Duma (Korsunov, 1997, p. 10). To put this accomplishment in perspective, a year later only 25 of Russia’s 89 regions had passed 3–4 laws on local self-government, none as comprehensive as those in Novgorod. In September 1996 Novgorod became the first region in Russia to successfully conduct elections for every level of government, ushering in a new era of political accountability.

If local self-government is to mean anything, however, it must have a solid economic foundation. This in turn required the adoption of a revolutionary approach to budgeting in which financial decisions are made and executed not at the regional level, but in each city and district. Forming the budget at the district level revealed that nine of the region’s 21 districts could not cover their expenses with their current tax base. Under this new system, richer regions transfer payments to the poorer region through a regional stabilization fund, contributing 15% of their revenues to the fund (Soldatova, 1997, pp. 38–39). This put tremendous pressure on local administrators to become more effective managers.

In the city of Novgorod-the-Great, for example, all tax receipts collected within the city are transferred from Moscow directly to the city coffers, entirely bypassing the regional administration. Thanks to these and other economies, the region has been able to reduce federal subsidies to the budget from 40% in 1993–94 to between 5 and 10% in 1996–97 (Tyshkevich & Bryuzgin, 1998, p. 14). Eventually, the regional administration hopes that each district will be directly responsible for attracting investors, and shoring up its own tax base just as the region has done (Khoroshukhin & Schegol, 1998, p. 46).

Despite its novelty, Novgorod-the-Great’s mayor, Aleksandr Korsunov, feels the new system’s benefits far outweigh its shortcomings. It has already led to greater social cohesion, he says, since people are now more likely to turn to city rather than regional or federal officials for help (Korsunov, 1997, pp. 10–11).

Korsunov seems to be right. Since 1997 more than 900 people have sought out their representative in the Novgorod City Duma for redress of their grievances. City and regional officials now hold monthly “open house” meetings that are publicized in the local papers, television, radio and internet. Administration officials estimate that each year they organize more than 200 meetings with local groups around the region to explain local policies and listen to people’s grievances (Verkhodanov, Igor V., chief aide to the Head of the Novgorod Regional Duma, interviewed on 24 May 1999).

One of the most tangible aspect of the increased trust in government is the Obshchestvennaya palata, or “Social Chamber,” where representatives of registered social organizations participate in the review of legislation pending before the Duma and offer their alternatives. The Social Chamber meets the last Thursday of each month and is chaired by either the head of the regional Duma or the governor.

The Social Chamber is actually an initiative of President Yeltsin’s administration. Sometimes in the summer of 1994, Yeltsin’s advisors decided that such chambers would encourage
dialogue between civic organizations and the local government, so they directed regional governors to set them up. In Novgorod, however, such an organization already existed. It had been formed about six months earlier under the auspices of the United Democratic Center to comment on existing legislation and recommend changes.

Spurred by the urgent need for legislation on local self-government, the Social Chamber unabashedly sought to oppose the monopoly of the pro-government party, Nash Dom Rossiya, on political life in the region. In these first six months, as local legislators grappled with the task of developing new legislation on local self-government, the Social Chamber met weekly to discuss the content of pending legislation and offer its advice (Alexandrov, I. B., chairman of the United Democratic Center, interviewed on 1 November 1998).

After the administration formed its own Social Chamber and offered access to all political parties (even the Communists and the Liberal Democrats), the significance of the unofficial chamber waned. Nevertheless, the group continues to meet sporadically, at the initiative of its members. Its opinions carry sufficient weight to entice a senior member of the administration (often a Vice-Governor) to find the time to attend.

The strategy of co-optation has worked well for the administration in its dealings with civic associations. Unlike many other regions, the Novgorod administration takes the input of these groups very seriously and has sought to expand contacts with them. For example, the original decree from Moscow proposed setting up a Social Chamber attached to the governor’s office. The region’s young governor, Mikhail Prusak, decided, however, that it should be attached not only to his office, but also to the regional Duma and the entire administration, thereby giving civic associations legal access to both branches of local government.

To encourage public involvement and debate, the local law establishing the Social Chamber stipulates that all decisions of the Chamber must be conveyed to the media, along with any minority opinions supported by no fewer than one-fifth of those present (Ob obrazovanii, 1994). The administration has also encouraged trade union participation, which has formed the basis for subsequent legislation on “social partnership” between business, labor and government leadership (see Figure 2).

The rapid introduction of local self-government seems to have had a positive impact on public trust in local government. Surveys of the region show that, even as confidence in national government is declining, confidence in local government is rising. When Governor Prusak campaigned for re-election in September 1999, he received over 91% of the vote, with slightly more than half of the eligible electorate voting.

5. ASSOCIATIONAL ACTIVITY IN NOVGOROD

With local self-government on the rise, it is not surprising to find civic associations in Novgorod thriving as well. What is surprising is the degree to which local government has encouraged civic activism.

Since 1991 the rate of growth of civic organizations has gradually slowed in Russia as a whole, but not in the Novgorod region. A recent survey of civic associations in 35 regions of Russia shows that during 1991–96 the total number of civic associations increased by 63% (Alekseyeva, 1998). During the same period, the number of civic associations in Novgorod increased 16-fold. By the end of 1999, there were some 615 officially registered civic organizations in the region (Petrova, 1999, p. 18). As a result, Novgorod is now among the top quarter of Russian regions in number of clubs and cultural associations per capita (Marsh, 1998, pp. 152–154).

Civic associations in Novgorod fall into six broad categories represented graphically in Figure 3. Charities, political groups, and professional or trade associations comprise more than two-thirds. The first two groups are self-explanatory; the latter includes the gamut of realtors, psychiatrists, builders, doctors, lawyers and other professionals seeking to promote the interests of their profession: from the influential “Novgorod Union of Entrepreneurs” set up in 1991, to the rather arcane Novgorod City astrologers association, “Arta.”

Putnam, who has studied the successes and failures of regions in Italy, has argued persuasively that widespread participation in civic organizations is indicative of a high level of social capital. He suggests

Participation in civic organizations inculcates skills of cooperation as well as a sense of shared responsibility for collective endeavors. Moreover, when individuals belong to ‘cross-cutting’ groups with diverse goals
and members, their attitudes will tend to moderate as a result of group interaction and cross-cutting pressures (Putnam, 1993, p. 89).

Comparing Novgorod to the regions of Italy reveals some interesting nuances. For one thing, nearly three-quarters of all civic associations in Italy are sports clubs; all other groups have very low rates of participation. By contrast, in Novgorod sports associations form only about 10% of the total. Most civic associations there are manifestly political or economic in nature.

Putnam calculates a “high” participation rate as one club for every 1000–2000 inhabitants (in Trentino/Alto-Adige and Liguria). At the other extreme lies Sardinia, with a very “low” participation rate of one club for every 13,100 inhabitants (Putnam, 1993, p. 92). Applying his methodology to Novgorod today reveals an astonishingly high participation rate for the city of Novgorod-the-Great—one club for every 635 inhabitants—and a quite respectable (by Italian standards) rate of one club for every 4,000 inhabitants throughout the rest of the region (see Figure 4).

One innovative way the government has promoted civic initiative has been through the so-called territorially based public self-government initiatives (territorial'no obschestvennoe samoupravlenie), or simply TOS. The idea for the TOS derives from local government’s desire...
to reduce government expenditures on housing by encouraging residents to assume maintenance responsibilities themselves. Reasoning that there are few areas more likely to elicit civic involvement than the condition of one's neighborhood, the administration has encouraged the formation of what are often called neighborhood associations, and given them the ability to raise funds, represent their interests before the city council, and even sue in local courts (O vremennom, 1997). In the first stage, condominium or cooperative housing owners set up a TOS to resolve issues affecting their neighborhoods. In the long run, the mayor of Novgorod-the-Great hopes that the TOS will establish a wide variety of new cooperative arrangements, and even form the basis for new electoral districts (Korsunov, 1997, p. 11).

An example of how the TOS work is provided by the United Democratic Center, a public interest group uniting seven local democratic parties. In 1996 the group decided to sponsor a TOS around school assemblies and parent-teacher organizations (Alexandrov, I. B., chairman of the United Democratic Center, interviewed on 1 November 1998). After conducting initial surveys showing that nearly two-thirds of parents would be willing to participate in such an organization, and more than a third would be willing to contribute 1–2 h a week to make it work, the Center focused on three schools in district #7 and began to organize parents in the region (Dom, 1996).

By the end of 1998, five district TOS were in operation, four with an average of 200 apartments and a smaller, fifth, with only 50 apartments. Four have registered with the city administration, while the head of the fifth feels that since he was elected to serve the neighborhood, official registration is superfluous (Bessonov, Sergei E., deputy chair of the Novgorod City Duma, interviewed on 4 November 1998).

The TOS illustrate the administration's eagerness to extend self-government to the most basic grassroots level. Skeptics, however, are still plentiful. Some fear that administration sponsorship will discourage self-reliance, while others believe that the TOS will eventually become nothing more than a mechanism for mobilizing the electorate in favor of government candidates. By far the greatest impediment to the development of the TOS, however,
is the reality that wages remain so low that very few can afford to become property owners.

6. SOCIAL CAPITAL AND THE STATE

According to three of the most common measures of social capital—economic development, trust in government, and civic activism—Novgorod seems to have developed an unusually high level of social capital. As startling as this assertion might seem, given that we are talking about a poor region in a country reputed to be without traditions of civic activism and local self-government, it is not entirely without precedent.

In the 1970s the southern Indian province of Kerala adopted policies strikingly similar to those of Novgorod. By discouraging factionalism and reaching out to various social forces (in particular to organized labor), the local government facilitated broad acceptance of new social rules, which it subsequently codified into social agreements. A number of new social interlocutors were thereby formed, with whom the government could then formulate and negotiate policy. These social agreements increased economic efficiency by preventing strikes and eased social tensions by providing a mechanism through which the state formally acknowledged its responsibility to care for the needs of the poor. Finally, the agreements established a formal procedure for the resolution of conflicts. The result, according to one student of the region was to make “the interdependence of interests more transparent, and outcomes less uncertain” (Heller, 1996, p. 1067). The inclusion of business, trade unions and civic organizations into the deliberative phase of policy making in Novgorod has had a similar effect.

The experience of Novgorod reinforces the notion that governments will invest in the creation of social capital, if they see how they gain from it. Just how do governments gain by investing in the creation of social capital? They gain, first, by increasing the level of public participation in the design and effectiveness of public programs. This is explicitly what the region’s Social Chambers are designed to do.

Second, by tax credits and subsidies, government can create incentives for local businesses to engage in community-minded behavior that promotes horizontal social capital construction. Such incentives are clearly at work in the administration’s promotion of a large variety of city-wide festivals that not only project a positive image of the city, but help to build community pride.

Finally, enhanced local autonomy often results in greater efficiency in the distribution of resources, and greater community “ownership” of public programs. In Novgorod this seems borne out particularly in the area of social assistance to needy families. During the first quarter of 2000, the regional government provided just 1.7 million rubles of targeted assistance to some 27,000 individuals and families. At the same time, however, private charities distributed nearly four times that amount (6.3 million rubles) to more than 34,000 persons (O sotsial’no-ekonomicheskoi, 2000).

Viewing the state as a party interested in the promotion of social capital also helps to shed light on another mystery: how does increased interpersonal trust wind up increasing trust in government? It is well established that social capital increases economic efficiency by shaping expectations about people’s behavior. Boix and Posner suggest, however, that this is also true of government bureaucracies (1998, pp. 691–692). Higher levels of social capital in a region are therefore likely to shape mutual expectations among civil servants and lead to increased cooperation. It is also likely to enhance the dialogue, both among different segments of the bureaucracy, and with the communities they serve. Ultimately, social capital fosters attitudes and practices that result in greater elite accommodation, and diminish the rapaciousness of groups who might otherwise engage in destructive in-fighting, or take advantage of their position to enrich themselves at the expense of the community (Boix & Posner, 1998, p. 692).

Since trust in government is largely the result of elites and society sharing a common vision, reform-minded governments have an especially keen incentive to encourage social capital formation. Aside from the benefits to administrative efficiency, it also offers the prospect of forging a social consensus between elites and nonelites upon which social stability, ultimately, must rest.

The degree to which such a consensus has been achieved in the Novgorod region is revealed in a very extensive 1999 survey that asked Novgorodians to consider which historical epoch they consider “the best in Russian history” (Monitoring, 1999, pp. 74–89). In similar surveys conducted nationally, the most popular responses are generally the periods
associated with Brezhnev (over 50%) and Stalin (20–30%), with other historical figures rarely even mentioned (Sedov, 1998; Peter I, 1999; Majority, 1999; Levada, 2000; Stalin, 2000).

In Novgorod, by contrast, assessments of the past are much more evenly distributed, with a slight preference for figures associated with radical reforms of a Western orientation. The top vote-getters in Novgorod were: Peter the Great (38.5%), Brezhnev (38.2%), Tsar Nicholas II’s reformist Prime Minister, Peter Stolypin (17.7%), Khrushchev (16.5%), the Novgorod Republic (16.4%) and Stalin (15%) (Monitoring, 1999, pp. 74–89).

As Figure 5 shows, this consensus is even more highly pronounced among Novgorod’s elite—the most active electorate, those who completed higher education, those with per capita family incomes over 1,500 rubles/month, and those under 25 who, in Novgorod, display the highest level of interest in politics and electoral participation of any age group. (Monitoring, 1999, pp. 74–89).

The example of Novgorod highlights the positive role that state support for social capital formation can play in post-communist societies. Despite the uniquely intrusive nature of the communist state, even the most repressive socialist regime left some space for private social interaction. Some have suggested that interaction between the private sphere of friends and family and the state sphere of mandated social intercourse led to a distinct, socialist brand of social capital (Mushaben, 1998). Interaction with the state created assets, resources, and the basis for credible commitments and coordinated actions. . . . At the shop-floor level, shortages and supply bottlenecks led to bargaining between supervisors and informal groups; at the managerial level, the task of meeting plan targets required a dense network of informal ties that cut across enterprises and local organizations . . . (Stark, 1992, p. 300).

This explains why, contrary to the expectations of nonstatists, for whom the state need only be constrained in order for civic associations to flourish, associational activity throughout Eastern Europe has deteriorated pari passu with the collapse of state institutions. Even in East Germany, where the transition from old institutions to new ones should have been quicker and less painful thanks to their absorption into pre-existing West German structures, there has been a shocking decline in civic participation since reunification. Mushaben blames the dismissal by some Western analysts of the very possibility of a “civil soci-

![Figure 5. Elite values consensus in the Novgorod region, July 1999. Note: For this survey, commissioned by Sberbank of Novgorod, 2,586 participants responded from all 22 districts of Novgorod and the city of Novgorod-the-Great (Monitoring, 1999).]
7. HOW NOVGOROD CREATED SOCIAL CAPITAL

Despite the apparent benefits to government of social capital formation, it still seems an unlikely outcome, particularly for local government in Russia where elites seem to derive benefit at the expense of the broader public. Hence elites in power would presumably always prefer the status quo to change, and exclusion to inclusion. Just how and under what circumstances did the government in Novgorod begin to support social capital formation?

Stoner-Weiss (1997) has looked at several regions and proposed one of the most sophisticated explanation of why elites in Russia will, in the long run, come to oppose reforms (Stoner-Weiss, 1997). She argues that increased economic (sectoral) concentration in a region encourages cooperation between local political and economic elites. Regions with high concentration of particular industries tend to be more successful at mitigating internal dissension within the elite and at presenting a united front in negotiations with Moscow. This results in better governance as measured by greater public satisfaction with government. The close connection between political and industrial elites fosters a mutual dependence reminiscent of "company towns" in the US experience.

In Novgorod, however, the economic and political elite did not follow this model. Instead of increasing sectoral concentration in the flagship industries of the time—electronics and machine-building—the latter were identified as a hopeless drain on resources and the root cause of the region's economic doldrums. Abandoning these industries in favor of new ones that could attract foreign investors became a top priority and has fueled the region’s economic growth ever since.

Why did most of the local elite support change rather than the status quo? When the regional Soviet disbanded itself in 1991, the business elite was split between new entrepreneurs, who had been pushing to establish a free-trade zone in the region, and traditional industries, now without the backing of the Communist Party. The then newly appointed governor, Mikhail Prusak, chose to give something to each side.

New entrepreneurs were encouraged to move into small businesses, and invited to participate in the formulation of new legislation that would encourage such businesses. At the same time, large-scale factories were not shut down, despite being a tremendous drain on the budget, but assisted in continuing to make their payments into the region's social fund. In addition, the administration set up a regional investment fund that it used to promote specific industries that it believed had a chance of becoming competitive.

In return for investment, the administration required that these industries accept large-scale foreign investment and even possible foreign ownership. While many local industries refused this offer, several others have been transformed into profitable enterprises that now compete in the global marketplace. Among them, the fire-resistant brick plant in Borovichi, the "Jupiter" optics factory in Valdai, and in Novgorod-the-Great, the "Kvant" television factory, "Splav," which makes casings for nuclear energy plants, and "Planeta," an electronic equipment manufacturer that was once the city's largest employer. All in all, small manufacturing increased by more than 80% during the first quarter of 2000, compared to the first quarter of 1999 (S nachala, 2000).

Constant interaction with foreign investors has also had a wide variety of coincidental benefits. It has increased the professionalism of the Novgorod administration, which prides itself on its ability to work successfully with foreigners. Foreign companies in Novgorod have their own Chamber of Commerce which, through membership in the region's Social Chamber, reviews and comments on all legislation pending before the regional Duma. Local officials admit that the Chamber's suggestions have improved the overall quality of local administration.

Foreign direct investment also hastened the introduction of local self-government into the region. Unlike other regions that avoid the institutionalization of legal constraints, the administration in Novgorod attracted foreign investment by preparing the necessary legal framework for it. Since foreign investors were looking for just such legal guarantees, it was
essential that they be adopted by the local Duma as soon as possible (Trofimov, V. I., First Deputy Governor of the Novgorod Region, interviewed on 10 April 1997). In order to promulgate such laws, however, the Duma first need to be elected, hence the incentive for regional authorities to work systematically toward the introduction of local self-government. As a result, in 1996, Novgorod became the first region in Russia to have elected representatives at all levels of government, from village elder to governor. In the case of Novgorod, we therefore see an elite consensus carefully buttressed by a legal framework. This sets Novgorod apart from the “institutionalized arbitrariness” that analysts describe as the norm for other Russian regions (Gel’man, 1999; Tsygankov, 1998).

Finally, Novgorod yields new insights into how to reverse the “virtualization” of the Russian economy. Many economists view the prevalence of barter and offset payments in taxation rates as symptomatic of the virtual economy’s destructive effect. Looking at data for 1996, Aslund (1999) found that regional governments received over 60% of local taxes in such money surrogates. For local and district governments that figure was 43% (1999, p. 100).

In Novgorod, however, the picture is quite different: that year money revenues constituted 74.9% of taxes, while money surrogates constituted only 25.1%. Eighty percent of the local tax base is generated by enterprises with foreign investment. By 2002, when several major foreign investors begin to pay their full taxes, the Cadbury–Schweppes plant in Chudovo alone is expected to generate some US$6 million in profit taxes for the regional budget, and it has been estimated that when all foreign investment enterprises begin paying their full share of taxes, the share of money surrogates in the local budget will drop to half the present level (Schmidt, 1998, p. 29).

At the same time, the high monetization of the regional economy gives the region access to financial markets not available to most other regions. This has allowed the administration greater discretion in setting budgetary priorities, such as funding the construction of a cancer care center for the region, aiding the restoration of churches and monasteries, and redistributing resources to depressed districts (O sosial’no-ekonomicheskoi, 2000). As Schmidt has put it, by allowing the region to raise additional capital for regional development, “FDI directly assists the maintenance of social peace” (1998, p. 29).

By late 1996, Novgorod’s success had attracted not only foreign investors, but also international aid agencies. The region received a loan from the EBRD to purchase new city busses, to experiment with the local tax base, and to create the first complete regional land cadaster in Russia. In 1997 Novgorod became one of four regions in the Russian federation to receive special program assistance from USAID under the State Department’s Russian Regional Investment Initiative.

The history of Novgorod’s economic development, however, clearly shows that foreign direct investment has contributed far more to the region’s success than foreign assistance and training. For one thing, FDI involves vastly larger amounts of money. Second, the impact of this money is immediate and much more visible. As a result, the regional government tends to respond with greater alacrity to the demands of foreign investors than it does to recommendations by Western aid agencies. Finally, by the time these aid agencies turned their attention to Novgorod, foreign companies had already become major contributors to the regional budget. Thus foreign investment contributed directly to rationalizing the political and economic climate of the region in a way that foreign assistance could not.

8. SOCIAL AND CULTURAL CAPITAL

How is it that Western analysts have overlooked the emergence of social capital one region? One reason may be the tendency to treat social capital as if it were utterly devoid of any cultural context. Lumping social capital together with all other forms of capital tends to obscure the fact that norms of reciprocity and trust are more properly the purview of culture (Foley & Edwards, 1998b, p. 135). Some analysts have found that associational life is “in part political, but above all cultural, which is shaping new possibilities on the level of democratic growth and positive use of civic resources” (Tarrow, 1996, p. 392). Indeed, participation in cultural and charitable organizations emerges as one of the strongest indicators of generalized trust (Stolle & Rochon, 1998).

The symbiotic relationship of social and cultural capital emerges very strongly in Novgorod, and helps us to better understand the mystery of social capital’s rapid growth in a
single region. By tackling several distinctly “cultural” issues early on, city officials paved the way for the establishment of an environment receptive to political and economic reforms.

As a first step, in 1991 the Novgorod City Soviet conducted a sweeping restoration of old street names and began the restoration of churches that culminated in 1993 with the reopening of the politically and historically significant Cathedral of St. Sophia. The removal of ideological constraints on the discussion of local history prompted a revival of interest in alternatives to the Soviet past. As a result, many local activists began to view the problems facing Novgorod today as not that dissimilar from those it faced in the past. Today the region must expand trade to survive, introduce local self-government, and keep a safe distance from Moscow to preserve its freedom. As any medieval historian can attest, these are precisely the issues that Novgorodians had to grapple with from the 12th to 15th centuries.

Despite being couched in “cultural” terms, all these events had a rather transparent political significance. At first the local administration saw this as useful only for attracting international investors. More recently, however, Governor Prusak has begun to appreciate the value of promoting Novgorod’s distinctive mercantile and democratic traditions, as part of a broad ranging political agenda with national implication. In his political autobiography, entitled appropriately Reform in the Provinces, he writes:

If we refer to our own past, we see that in Russian history there was a city that was able to combine democracy, free market relations, and other accomplishments of civilization with national traditions. That city was Lord Novgorod-the-Great, the capitol of a once flourishing civic republic that extended from the White Sea to the Ural.

Academician Yanin, who has devoted his entire life to studying Novgorod’s history, has shown conclusively that Rus’ originated here. In contrast to the starkly centralized model that Muscovite Rus inherited from Kievan Rus (adding its own absolutist tendencies to it), the Novgorod model was characterized by greater openness and democracy. All major decisions were taken by the popular assembly—the veche. It elected its own spiritual leader—the archbishop—who was the leading figure in the city, while the prince fulfilled the role of military commander.

The Novgorod model has demonstrated its viability by giving the world a unique culture that created enormous material and spiritual wealth. But history decreed that the nation would take another path. The eastern tradition, represented by the principality of Vladimir-Suzdal, and later Moscow, gained the upper hand. The Novgorod Republic was forcibly destroyed and yet, over the course of centuries, she continued to exist in people’s memory. Today this model has a new historical opportunity. Our generation can return to the principals of our ancestors, but on a new basis. Self-government, elections, public accountability of authority, private property, individual liberty—the very cornerstones of the Novgorod Republic—are regaining their former significance.

On 27 January 1998 a joint session of the city and regional Dumas took a truly symbolic step. The deputies unanimously resolved to restore to Novgorod her previous historical name—Novgorod-the-Great. In taking this decision, the deputies not only rectified a historical injustice, but reaffirmed their commitment to those principles by which our ancient city once lived. Without foisting our views on anyone, it seems to us that it is precisely in these principles that we must seek the roots of that national idea that the new Russia so desperately needs (Prusak, 1999, pp. 94–96).

9. CONCLUSION: LESSONS OF THE NOVGOROD MODEL

Novgorod’s ability to create impressive levels of social capital in just a few short years adds a new dimension to our understanding of why the state is so important to fostering social trust. While the factors that promote trust vary from culture to culture, there is always one common element—stable state institutions that allow for predictable engagement among social actors, and a credible system of enforcing social norms. As the prime agent of socialization, the state plays a key role in establishing social norms and providing society with a common cultural framework.

Too often the cultural discontinuity that has accompanied the political changes in “transition societies” has led not to the embrace of change, but to a prolonged period of uncertainty during which cultures are “plunged into a collective infancy” (Eckstein, 1988, p. 799). In communist societies, where the state nearly consumed civil society, many people instinctively still look to the state to make sense of the world around them. When it fails to do this, they withdraw from society rather than try to transform it. Novgorod has succeeded where other regions have failed because the regional elite and the regional government reached a
consensus on how to address the problem of cultural discontinuity. By defining “reform” as a restoration of the values of a more prosperous Russian past, rather than as something imported from the West, they were able to ease the anxieties that inevitably accompany radical change.

Novgorod’s success in forging a social consensus around a “new” set of traditional values has implications for other societies in transition. Too often we think of culture as a “given” when in fact, as Eric Hobsbawn has suggested, it is very much an “invented tradition” (Hobsbawn & Ranger, 1983). All new regimes redefine the past in terms that suit their current needs, and Novgorod shows that local governments in post-communist countries are far from helpless in defining common social values and priorities for their communities, even in the absence of a national consensus.

Second, ideas and symbols matter very much, for they have a direct impact on the creation of social capital. The key to the creation of social capital, the missing link that explains the speed with which new democratic values and structures have emerged in Novgorod, lies in grasping political significance of culture and historical myth.

Such myths are not rare in Russia. In Nizhny Novgorod local administrators capitalize on the fame of the regional fair to promote their city as the “third capital.” In Saratov local administrators evoke the memory of pre-Revolutionary governor Pyotr Stolypin as a model reformer and “Russia’s first modern statesman.” In Yaroslavl’, what Mitchneck (1998) has called “the heritage industry,” plays a prominent role in local politics and, of course, in St. Petersburg officials have long exploited the city’s image as “Russia’s window to the West.” The common thread in each instance is the desire to be minimize the disruption of old institutions where they continue to serve public needs, while simultaneously embracing new institutions and values, but placing them firmly within the context of traditional cultural values.

Finally, the impressive results achieved in the Novgorod region should lead us to rethink the widespread assumption that Russian history is a burden to reform. Without reference to the past no meaningful transition to the future is possible—the key lies in choosing the kind of past that provides the best model for the future. By banking on its past, Novgorod has already begun to reap the rewards of its investment in social capital.

NOTES
1. Petrova notes that there are actually 1,028 civic organizations registered with the local Ministry of Justice. Of these, however, 413 are local trade union branches, all registered in 1999. According to senior officials in the Novgorod regional Duma, this sudden burst of registrations is designed to allow trade unions to promote candidates for both the municipal and regional levels of government. As “independent” civic organizations registered at both levels, they would have the legal flexibility to operate at both levels. At the same time, however, the actual choice of candidates to support will most likely be made the regional or even national trade union offices. Since the appearance of these groups appears to be a contrivance aimed at circumventing the election laws, I have chosen not to include them in the total.

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