

The Importance of Cultural Values in the Economic Well-being of Albanians: Trust and Social Capital

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Abstract

The theme of economic development of states and societies is usually colored by varieties of socioeconomic organization and characteristics that are inherent for those cultures. In order to assess the reasons behind such disparities, an analysis has to look within those societies and observe the factors and conditions that characterize different development patterns. Contrary to the casual analyses of states and countries, this thesis analyzes economic development through the prism of ethnicity, thus concentrating on the Albanian populace in set of three states in the Balkans: Albania, Kosova and Macedonia.

The aim of this thesis is to explain the strong kin and family connections of the Albanians in these three states from a chronological perspective, as they developed throughout the administration of foreign rulers. Furthermore, I argue that the levels of low trust that are maintained in the Albanian society directly affect the low number of associations outside the close circle of family, kin and acquaintances. This has a direct effect on social capital and therefore the robustness of the respective economic performances. Also, I examine the treatment of ethnic Albanians by the institutions and ruling structures in these states to give an overview and provide explanations for the social and economic behavior of the ethnic Albanian in contemporary times. Consequently, the main question that this thesis seeks to answer is: why do the different sociopolitical conditions that are imposed on the ethnic Albanian population in the Balkans not result in different levels of economic development beyond state boundaries?

Table of Contents

ACKNOWLEDGEMENTS.....	II
ABSTRACT.....	III
TABLE OF CONTENTS.....	IV
INTRODUCTION	5
1. LITERATURE REVIEW.....	10
1.1. INTERACTION OF CULTURE AND ECONOMICS: HISTORICAL VIEWPOINTS	10
1.2. TRUST: A CONCEPTUAL FRAMEWORK.....	15
1.2.1. <i>The Importance of Trust in Economic Matters</i>	15
1.2.2. <i>Types of Trust</i>	19
1.3. SOCIAL CAPITAL AND ITS EFFECT ON ECONOMIC AFFAIRS	22
1.3.1. <i>Types and the Measurement of Social Capital</i>	24
2. SUMMARY OF THE AIMS AND HYPOTHESES.....	28
2.1. RESEARCH QUESTION.....	28
2.2. AIMS	28
2.3. HYPOTHESES.....	28
3. FAMILY AND KINSHIP AMONGST ALBANIANS	30
4. A HISTORICAL OVERVIEW OF THE COMMUNIST LEGACIES OF ALBANIA, KOSOVA AND MACEDONIA	35
4.1. ALBANIA’S COMMUNIST LEGACY	35
4.2. ALBANIA’S ECONOMIC INDICATORS.....	38
4.3. KOSOVA’S YUGOSLAV LEGACY	42
4.4. KOSOVA’S ECONOMIC INDICATORS.....	44
4.5. MACEDONIA’S YUGOSLAV LEGACY	48
4.6. MACEDONIA’S ECONOMIC INDICATORS.....	50
4.7. A CROSS-STATE COMPARISON OF ALBANIANS	53
5. MEASURING TRUST.....	57
5.1. ALBANIA AND MACEDONIA	57
5.1.1. <i>Generalized Trust</i>	58
5.1.2. <i>Political Trust</i>	60
5.1.3. <i>Institutional Trust</i>	61
5.1.4. <i>Importance of Family</i>	64
5.2. KOSOVA	64
5.2.1 <i>Institutional Trust</i>	66
5.3. ANALYSIS OF TRUST AND COMPANY SIZE	67
CONCLUSION.....	69
FIGURES AND APPENDICES	71
APPENDIX	76
BIBLIOGRAPHY.....	77
DATABASES AND REPORTS.....	84

Introduction

While observing the economic development of different states and societies, one comes across a variety of socioeconomic organizations and levels of economic progress. In order to assess the reasons behind such disparities, an analysis has to look within those societies and observe the factors and conditions that characterize the different development patterns. In my thesis, I have decided to concentrate on the Albanian population in three states of the Balkans: Albania, Kosova¹ and Macedonia. The basic motive for such an analysis is chiefly fueled by the similar economic indicators that the Albanians achieve in these three states. What is more, little or no research has been undertaken to analyze economic performances of ethnic Albanians from an ethnic perspective. Bearing in mind that Albanians have lived in separate states since the early twentieth century, I analyze why Albanians have not developed different economies in their respective states.

Albanians mostly live in ethnically compact settlements in large areas of the southwest part of the Balkan Peninsula, primarily in the Republic of Albania, Republic of Kosova and Republic of Macedonia. While there are other Albanian communities, both indigenous or as a result of further emigration², they prove insignificant for the purpose

¹ In international communication, this region is referred to as Kosovo. In the Albanian language though, the toponym is Kosova. Moreover, with the declaration of independence, the name “Kosova” is in official use. Hence, throughout this thesis I shall use the toponym Kosova, although Kosovo might be used in various contexts.

² Ten percent of ethnic Albanians live in the state of Montenegro. The Albanian enclaves in southern Serbia are also inhabited by ethnic Albanians. The Albanians in Greece are called Arvanites and populated much of central and southern Greece in the late middle Ages. Southern Italy also has a substantial early Albanian minority, known as the Arbëresh, dating from the

of this thesis because of the scattered nature of their settlements and the total Albanian population that they account for. Because of this, I concentrate only on the cases of Albania, Kosova and Macedonia.

The aim of this thesis is to explain the strong kin and family connections of the Albanians in these three states from a chronological perspective, as they developed throughout the administration of foreign rulers. These traditional strong family ties have existed for a very long time, and the interactions with foreign rulers, domestic governing regimes and other sociopolitical factors throughout history, but especially during the twentieth century, have strengthened the focal position of family in the affairs of ethnic Albanians.

Contrary to the casual analyses of states and countries, this thesis analyzes economic development through the prism of ethnicity, thus concentrating on the Albanian populace in set of three states in the Balkans. This perspective requires a thorough scrutiny looking back in history, observing how cultural values have been cultivated and what influences have shaped the levels of trust in Albanians.

Fukuyama's analyses show that "a nation's well being, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in the society."³ While the level of trust imposes itself as an important factor, it is an integral part of a society's social capital which also "...includes the institutions, the relationships,

fifteenth century. In addition, there are communities of recent Albanian emigrants in Greece, Italy, Switzerland, Germany, Scandinavia, North America and Australia.

³ Fukuyama, Francis, 1995, "Trust: The Social Virtues and the Creation of Prosperity", *Free Press*, New York, p.7

the attitudes and values that govern interactions among people and contribute to economic and social development.”⁴

Having this in mind, I find it vital to include the notion of trust in the study of the economic development of the ethnic Albanian population. Furthermore, I argue that the levels of low trust that are maintained in the Albanian society directly affect the low number of associations outside the close circle of family, kin and acquaintances. This has a direct effect on social capital and therefore the robustness of the respective economic performances. I observe the hardships of ethnic Albanians in the cooperation with other ethnicities or groups in their surroundings, as well as the insignificant amount of mutually-beneficial transactions for long periods of time that have accounted for a low standard of living in their respective societies. Also, I examine the treatment of ethnic Albanians by the institutions and ruling structures in these states to give an overview and provide explanations for the social and economic behavior of the ethnic Albanian in contemporary times. Finally, I test my hypotheses with the measured levels of trust in Albania, Macedonia and Kosovo.

Additionally, there might be examples of other nations or ethnicities developing low patterns of trust in their respective histories that have unfavorable effects on their economies. The aim of this thesis is not to explain the formations of trust in various cultures, but rather focuses on only three states in the Balkans, which account for the largest percent of Albanians worldwide. Furthermore, it is not the intent of this thesis to

⁴ Grootaert, Christian and Thierry Van Bastelaer, 2001, “Understanding and Measuring Social Capital: A Synthesis of Findings and Recommendations”, Social Capital Initiative, World Bank

provide explanations on how trust levels affect economic behavior in general, but rather on the economic performances of the Albanians in Albania, Kosova and Macedonia.

In order to assess the link between strong family ties, trust and social capital, I shall theorize a set of antecedent and intervening variables that have influenced and existed in this region as external reign, repression, conflicts and violent interaction with governing institutions. In this way, I shall make use of process-tracing as a method for identifying and testing causal mechanisms that have inflicted a strong family unit and kinship relation, but low trust towards others. The consequent low amounts of social capital between Albanians themselves, and Albanians and other groups, account for the low economic growth perspectives.

Moreover, I will use John Stewart Mill's Method of Agreement to show that the present levels of economic progress of ethnic Albanians beyond political borders is very similar, this being an effect of the joint cultural set of values and trust which have been nourished and preserved in the ethnic Albanian family and culture. The ethnic Albanians have been living under different social conditions, governing structures and differing political influences in all the three states. Their historical and colonial pasts imposed on them a different set of living conditions, different social and ethnic compositions, and furthermore, brought various economic policies regarding growth, but still their economic performances remained very similar.

This thesis commences with a comprehensive literature review on the interplays of cultural variables and economic outcomes in Section 1, with subsections dedicated to the conceptual frameworks of trust and social capital. In addition, Section 3 deals with the importance of family and the inherent trust in family relations. In that framework, Section 4 presents a method of process tracing with a chronological historical overview of the causes that have inflicted a low-trusting attitude of Albanians towards non-kin in the past and the present. Moreover, in this section I use Mill's method of agreement to analyze the facts causing the low mutual economic progress of all three: Albania, Kosova and Macedonia, which is fueled by the different histories and factors brought forward with process tracing and by the previous section on family matters. Finally, in Section 5, I analyze and compare survey data to measure various types of the variable of trust in all three countries and empirically show the similar levels of trust in the three states.

1. Literature Review

1.1. *Interaction of Culture and Economics: Historical Viewpoints*

Cultural explanations that argue for economic growth based on cultural influences were quite favored by classical economists. In this line of argument, Adam Smith analyzed the inherent individualistic character of the Anglo-Saxon culture when he first talked about the division of labor. Moreover, his “Theory of Moral Sentiments” saw social organization as the outcome of human action and morality as the product of our nature, not our reason.⁵ In addition, Karl Marx argued that technology is the main driving force that sets the human social organization and culture. According to him, it is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness.”⁶

Both Marx and Weber held the position that the well-being of capitalism in general required stakeholders with certain work qualities. Marx valued acquisitiveness, individualism and the willingness to work. Max Weber’s accent on culture was channeled through his analysis of the protestant work ethic and the Calvinist beliefs as part of the cultural theory of development that set the base for the development of neo-capitalism in Germany. According to him, religious anointments gave the bourgeoisie the moral

⁵ Smith, Adam, 1909-14, “*An Inquiry into the Nature and Causes of the Wealth of Nations*”, Edited by Kathryn Sutherland, Oxford University Press, New York, 1993

⁶ Marx, Karl, 1859, Preface to “*A Contribution to the Critique of Political Economy*”, International Publishers, New York,

strength to subvert the previous order and create a new one, based on the organization of free wage-earners for the purpose of economic profit.⁷

As far the importance of cultural values and religion as a part of that denomination is concerned, Karl Polanyi shared Weber's views that religion, as such, contributes to the institution of markets, at the same time considering cultural denominations as factors in regulating the market surpluses.⁸ Moreover, in analyzing economical performance and its linkages to the cultural roots, such a rationale started to be embraced by other non-conventional economic scholars.⁹

Edward Banfield also sets out to accept a cultural justification for economic backwardness. This was demonstrated by his work in the south of Italy where he identified and studied the strong family and kinship ties inherent to the southern culture, which he addressed as "amoral familism".¹⁰ In a sense, Robert Putnam continues Banfield's work by putting cultural explanations at the center of his work on economic and democratic development of the southern Italian region. He argues that the basis of a

⁷ Weber, Max, 1905, *"The Protestant Ethic and the Spirit of Capitalism"*, Routledge Classic, London, 2001

⁸ See, Guiso, Luigi, Paola Sapienza and Luigi Zingales, "The Role of Social Capital in Financial Development," *The American Economic Review*, 94, pp. 526-556, 2004; Guiso, Luigi, Paola Sapienza and Luigi Zingales, "Cultural Biases in Economic Exchange", NBER WP 11005, 2007; Guiso, Luigi, Paola Sapienza, and Luigi Zingales, "Trusting the Stock Market" *University of Chicago*, mimeo, 2005 ; Guiso, Luigi, Paola Sapienza, and Luigi Zingales, "Was Putnam right?" *University of Chicago*, mimeo; Guiso, Sapienza and Luigi Zingales, "Does Culture Affect Economic Outcomes", Paper prepared for the Journal of Economic Perspectives, January 2006

⁹ Hirschman, Albert O., 1958, "Strategy of Economic Development", New Haven, Yale University Press; and Hirschman, Albert O. 1984, "Getting Ahead Collectively: Grassroots Experiences in Latin America", New York, Pergamon Press and Coleman, James S., 1990, "Foundations of Social Theory", Cambridge, MA: Harvard University Press.

¹⁰ Banfield, Edward C., 1958, "The Moral Basis of a Backward Society", New York: Free Press

responsive, democratic government lies in civic tradition.¹¹ Putnam analyzes southern Italy's social contacts and concentrates on the voluntary associations among the population, which he calls "secondary associations".¹² According to Putnam, the civic communities lay in the midst of intense networks of secondary associations that encourage trust and cooperation, as firm foundations for democratic development and economic progress.¹³

Adding to this, Fukuyama also sets out what appears to be a macro-level theory of economic conditions.¹⁴ His model looks at the amount of trust a society shows in terms of non-kin relationships. Fukuyama, stresses that societies with high levels of outer-kinship trust¹⁵ and numerous associations beyond family and kin lines foster higher development, and are able to form large economic corporations as main drivers of development.

David Landes' argues that there is causality between culture, beliefs and economic outcomes. He addresses the basic issue of successful economies and the reasons behind such a successful endeavor. His analytical scrutiny then relies on cultural factors such as, hard work, persistence, honesty, and tolerance on one side, and xenophobia, religious

¹¹ Putnam, Robert D., 1993, "Making Democracy Work", Princeton University Press, Princeton, NJ

¹² Putnam examines the secondary associations and links which are created from outer-kin relationships, which are the main source of social capital.

¹³ Putnam's work provides extensive data and finds that the areas that come into contact with or felt the direct influence of the free city states in the past had a higher level of social capital, *i.e.* economic progress.

¹⁴ Fukuyama, Francis, 1995.

¹⁵ Fukuyama divides societies into two categories. In the first he classifies societies of low-trust as China, Korea, Italy and France. In the second group, Fukuyama designates the high-trust societies of Japan, Germany, and the United States.

intolerance, bureaucratic corruption, and state norms on the other.¹⁶ According to Landes, the biggest impediment to economic development lies in the social, cultural and technological unpreparedness in knowledge and know-how. In Landes' words, it is clear that "if we learn anything from the history of economic development, it is that culture makes all the difference."¹⁷

Series of authors and reports¹⁸ explained the reasons behind the economic boom in South East Asia by accenting the contribution of culture and importance of state fostered social capital¹⁹ in low-trust environments.²⁰ A major breakthrough is the accentuation of the Confucian work ethic as an important factor for the development of the South East Asian countries.²¹ Chiefly, noneconomic factors, such as culture, politics, and history are other important factors behind the success of these economies. Moreover, the remarkable stress on education has contributed much to the success of these countries.

¹⁶ Landes, David, 1998, "The Wealth and Poverty of Nations", Norton and Company Inc., New York.

¹⁷ *Ibid.*

¹⁸ See, Serageldin, Ismail, 1996, "Sustainability as Opportunity and the Problem of Social Capital", *Brown Journal of World Affairs* 3(2), p.187-203; See also, Woolcock, Michael, 1998, "Social Capital and Economic Development: Towards a Theoretical Synthesis and Policy Framework", *Theory and Society* 27, p.151-208; Evans, Peter, 1995, "Embedded Autonomy: States and Industrial Transformation", Princeton University Press, Princeton NJ; Evans, Peter, 1996, "Government Action, Social Capital and Development: Reviewing the Evidence on Synergy", *World Development* 24(6), p.1119-1132; Page, John et al., 1993, *World Bank Policy Research Report*, "The East Asian Miracle: Economic Growth and Public Policy", Oxford University Press, NY

¹⁹ It is the extensive web of dense networks between government officials and corporate managers that generated a "joint project" of industrial transformation.

²⁰ Referring to Hong Kong, Indonesia, Japan, Malaysia, South Korea, Singapore, Taiwan, and Thailand

²¹ For more see, Redding, S. G., 1990, "The Spirit of Chinese Capitalism", De Gruyter, Berlin; and Berger, P. and H. M. Hsiao, 1988, "In Search of An East Asian Development Model", Transaction Books, New Brunswick

The *Asian Miracles* are successful exemplars of rapid transformation from rural and agrarian economies to one of the most progressive industrial economies in the world. The embeddedness of the state institutions with the private sector, under conditions of reformed bureaucracies and meritocratic systems of advancements in a surrounding of low trust was vital to the success of the South Asian Nations.

Concluding, it is quite obvious that the role of culture in economics has been acknowledged by the literature on economic development, and as such, cultural denominations have been perceived as an integral part of the development process. Certainly, each nation has its own distinct set of cultural denominations that have their effect on economic indicators, thus, each nation's economy is unique. In that context, this thesis sets out to explain today's low economic achievements of ethnic Albanians by observing traditional values, trust and socioeconomic organization of the ethnic Albanian society.

1.2. Trust: A Conceptual Framework

1.2.1. The Importance of Trust in Economic Matters

*Conjoint action is possible just in proportion as human beings can rely on each other ... [T]he most serious impediment to conducting business concerns on a large scale, is the rarity of persons who are supposed fit to be trusted with the receipt and expenditure of large sums of money*²²

Trust is the door through which culture streamed its influence in the economic scope and grabbed the attention of political scientists and economists²³ as an integral part of economic development. A growing number of scholars²⁴ commenced to examine the economic effects of trust and the growing importance that trust was gaining in economics. While explaining economic anomalies in less developed and poor countries, trust was deemed to have a great role in development and growth of world nations. With the impression it leaves on a daily basis in economic transactions and associations of all kinds, trust is profoundly rooted in the microcosm of the societies' cultural values, beliefs and domestic plane.²⁵

²² John Stuart Mill, 1848, "Principles of Political Economy"

²³ Banfield, Edward C., 1958; Putnam, Robert D., 1993; Fukuyama, Francis, 1995; La Porta et al., 1997, Keefer, Philip and Stephen Knack, 1997, "Why Don't Poor Countries Catch Up? A Cross-Country Test of an Institutional Explanation", *Economic Inquiry* 35(3), pp.590-602.

²⁴ *Ibid*

²⁵ The element of trust on a micro-level was put to the fore as early as 1972 by a survey conducted in New York University where the study observed trust and the effectiveness in solving problems by students from different cultural surroundings. It was noted that there is a lower problem solving efficiency among low trust groups. Moreover, close inter-personal

Trust in general, including the cultural element of trust, can be seen as a factor that channels its effect as a prior that has a bearing on people choices. Recent studies²⁶ and papers show that people's beliefs, values and prospects of trust²⁷ are deeply impinged upon by the vicinity of their birth place, regardless whether they still live there. A significant contribution is given by several cross-national surveys and studies which try to portray the relative levels of trust across different nations²⁸, and raise the issue of trust as a component that affects people's abilities to relate to others and involve in simple economic transactions. The results show that the higher the level of trust, the higher the possibility to engage in numerous mutually-benefiting transactions. Drawing on this, I hypothesize that the vicinity in which the ethnic Albanians live would have a huge impact on the economic behavior and the openness to interaction with other groups. A traditional closed circle of people inherent in the Albanian society suffocates the ability to engage in easy transactions outside their vicinity.

associations hinders and alters the objective view in problem solving. In those surroundings, members of the low trust groups use the problem as a tool to reduce their liability. For more see, Asherman, Ira, John W. Bing and Lionel Laroche, "Building Trust Across Cultural Boundaries", Study conducted by Prof. Dale Zand at NYU, 1972, ITAP International

²⁶ Guiso, Luigi, Sapienza, and Zingales, 2004; and 2007

²⁷ La Porta, Rafael et al., 1996, "Trust in Large Organizations", NBER *Working Papers* 5864, National Bureau of Economic Research, Inc; Alesina, Alberto and Eliana La Ferrara, 2000, "The Determinants of Trust", NBER *Working Papers* 7621, National Bureau of Economic Research, Inc; Alesina, Alberto and Eliana La Ferrara, 2004, "Ethnic Diversity and Economic Performance", NBER *Working Papers* 10313, National Bureau of Economic Research, Inc; Alesina, Alberto and La Ferrara, Eliana, 2002, "Who trusts others?", *Journal of Public Economics*, Elsevier, vol. 85(2), pp. 207-234

²⁸ *Ibid*

As we can learn from the literature, the detriments of a low trust society, in the respect of achieving certain heights of living standards can be immense.²⁹ While a low trusting society imposes limitations in growth, a higher trusting society brings the benefits of a greater stability in economic transactions and collective advantages from access to public capital.³⁰ Increased social interrelations and increased trust in interpersonal communication brings the benefits of reduced transactions costs and a stable enforcement of contracts. Easily facilitated capital for individuals can bring more possibilities for growth, while on the other hand, a trusting social structure is likely to strengthen its democratic governance³¹ and contribute to an efficient and reliable bureaucracy.³² Such a position is also held by Axelrod, who notes that depending on the quality of the public institutions, governance and investments in the upgrade of social associations, trust can be strengthened in the society.³³ The nations' amount of trust in outsiders, regardless whether that trust is self-sustained or supported by state social policies can strongly affect the predisposition of people to work together and result in sizeable and numerable transactions.³⁴

Edward Banfield is another author ready to embrace a cultural explanation for underdevelopment. During his research in southern Italy, Banfield comes across strong

²⁹ Banfield, 1958; Putnam, 1995; Fukuyama, 1995

³⁰ Alesina, Alberto and Eliana La Ferrara, 2000; and 2002.

³¹ Almond, Gabriel and Sydney Verba, 1963, "The Civic Culture: Political Attitudes and Democracy in Five Nations", Princeton University Press

³² Putnam, Robert D., 1993

³³ For more see, Axelrod, Robert, 1984, "The Evolution of Cooperation", New York: Basic Books; Glaeser, Edward et al., 2002, "The Economic Approach to Social Capital" *Economic Journal*, Vol. 112 Issue 483, p.437; and Fukuyama, 1995

³⁴ Knack, Stephen, 2001,

kinship ties and notices the inward concentration of individual self-interest, which he conceptualizes as “amoral familism”.³⁵ He largely accredits economic backwardness to the negative role such close ties play in the society. In addition, this is further argued by Fukuyama, who talks about the kind of trust that is developed on a kinship and family plane that impairs the particular generalized trust which goes beyond the family and exists in the population. Francis Fukuyama stresses the essential importance of trust in fostering development. He creates a direct linkage of the variable of trust to the promotion of social capital and believes that cultural factors such as ethics and moral behavior can reflect in the way a nation fosters economic development. According to him, trust evolves when in a certain group of people a set of moral values is dispersed and accepted all through the society. As a result, the society creates expectations of standard and honest behavior in the relations between outer-kin members, which encourages further associations and a cultivation of social capital.

Joining the authors that incorporate trust as a part of economic progress, Patrick Francois, concentrates on the role of close traditional ties within people. As per Francois: “[s]uccessful production networks in less developed countries tend to rely heavily on bonds of kinship and familiarity within relatively small groups, in order to overcome vulnerability to opportunism.”³⁶ He stresses that such narrow, informal, but powerful linkages between family, kin and friends, “... is unlikely to provide the confidence

³⁵ Banfield, Edward C., 1958,

³⁶ Francois, Patrick, 2002, “Social Capital and Economic Development”, Fundamentals of Development Economics, Kaushik Basu (eds.), Routledge, Vol. 2, London, p.4

required to sustain the myriad interactions that mark modern production. Trust between largely anonymous trading partners plays a critical role.”³⁷

Precisely such small networks that Francois speaks of are typical in the ethnic Albanian inhabited areas.³⁸ In the absence of larger industries and production capacities, small companies after achieving a certain degree of financial success and place in small markets, narrow their expansion and concentrate on the well known links that are formed and maintained in their vicinities. A more technologically advanced production would require larger markets and series of transactions and financial arrangements with members of other localities and cultures which are unfamiliar. Such an endeavor requires the dispersion of a certain degree of generalized trust which would be widely accepted in the societies; a quality which is lacking in the respective societies inhabited by ethnic Albanians.

1.2.2. Types of Trust

In the widespread agreement among scholars about the significance of trust in political and economic affairs, there are differences in opinion about the types of trust that have the outmost effect on economic policies regarding development. The debate revolves around various contexts and cases, involving the importance of fostering generalized trust on one side, and institutional and political trust on the other as determinants of economic development.

³⁷ *Ibid*; See also, Greif, Avner, 1994, “Cultural Beliefs and the Organization of Society”, *Journal of Political Economy* 102(5), pp. 912-950.

³⁸ To be illustrated in Section 4.

The institutional trust can be defined in the prism of connections between the individual and institutions, and in addition, it can be seen from a top-down, as well as from a down-up perspective³⁹. This is a purely vertical connection, which differs greatly from the horizontal ties that are created in a society. Some scholars⁴⁰ have pointed that institutional trust is a direct outcome of institutional performance. Therefore, people can rely on trustful institutions of the state for protection, legal or otherwise, and be part of institutional incentives to engage in business activities with other people and thus promote development. On the other hand, people can reflect to their close family and kin networks to insulate themselves from institutions that are not trusted.⁴¹ In that perspective Richard Rose describes the high degree of distrust in post-Soviet Russian institutions and government institutions, and the strengthening of the exclusive horizontal trust between kinship and the immediate members of the community.⁴²

The horizontal connections accentuate the trust that society members have towards their immediate members of family, relatives, friends and other people, whom they might not know. Fukuyama notes that those societies, groups, or even minority groups within a society having low levels of family openness also produce less non-kin interaction within

³⁹ This vertical link corresponds with “linking” social capital, which shall be described in the Subsection 2.3.1.

⁴⁰ Shlapentokh, V., 1989, “Public and Private Life of the Soviet people”, Oxford University Press, New York; Fukuyama, Francis, 1999, “The great disruption: Human nature and the reconstitution of social order”, Free Press, New York; March, J. G., 1988, “Decisions and Organizations”, Blackwell, Oxford, UK; and North, Douglass, 1990, “Institutions, Institutional Change, and Economic Performance”, Cambridge University Press, New York, p. vii

⁴¹ *Ibid.*

⁴² Rose, Richard, 1995, “Russia as an Hour-Glass Society: A Constitution without Citizens”, East European Constitutional Review 4, pp. 34-42.

the society and lower levels of social capital. In addition, Fukuyama argues that during communism these horizontal trusting patterns were exclusive of people other than family, kin and close friends.⁴³

In the framework of generalized trust and political/institutional trust, there are diverse understandings and perceptions of the interplays among these dimensions of trust. The first distinction is a logical horizontal/vertical divide, where generalized trust is conceived as different from political/institutional trust, with an accent on the divide between close ties in the immediate circle and relations to others. A different perception on trusting patterns is provided by Putnam⁴⁴, who refers to a “thick” trust as a trust in family members, kinship and close acquaintances. A “thin” trust according to him is trust in people that are not known and also includes political trust, as trust vested in politicians and officials.⁴⁵ Moreover, this thesis will relate to different models derived from these conceptualizations of trust and will test the same in Section 5.

⁴³ For more see, Fukuyama, Francis, 1995; and 1999

⁴⁴ Putnam, Robert D., 2000

⁴⁵ This distinction relates to the bonding and bridging aspects of social capital which shall be explained in the section devoted to social capital.

1.3. Social Capital and its Effect on Economic Affairs

“[T]he aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group – which provides each of its members with the backing of the collectively-owned capital.”⁴⁶

In the search for policy therapies of economic progress and growth in the world and give clarifications for the various macroeconomic indicators between states, a number of scholars have been drawn into microeconomic analysis and methodical study of the individuals, their immediate surroundings and the microcosmic world that they inhabit.⁴⁷

This kind of thorough scrutiny examines the ways that individuals cultivate priors, trust in close family circles and generalized trust, i.e. trust in others. As a strong factor, forging outer-kin relations in high numbers has direct effect on the micro level development which causes a chain of other connection that lead to economic progress.⁴⁸ Moreover, “social capital refers to the internal social and cultural coherence of society, the norms and values that govern interactions among people and the institutions in which they are

⁴⁶ Bourdieu, Pierre, 1986, “The Forms of Capital”, J. Richardson, ed., Greenwood Press, Westport p. 249.

⁴⁷ A vast contribution to the literature on the notion of social capital comes from World Bank’s “Social Capital Working Paper Series”, compiled primarily to help nations in development, and the same is used as a helpful guide in the making of this thesis – for more see: Rossing, Tinne Feldman and Susan Assaf, 1999, “Social Capital: Conceptual Frameworks and Empirical Evidence”, World Bank, WP5; Narayan, Deepa, 1999, “Bonds and Bridges: Social Capital And Poverty”; Sorensen, Casper, 2000, “Social Capital and Rural Development: A Discussion of Issues” WP10; Grootaert, Christiaan, 1998, “Social Capital: The missing Link?”, WP3; Grootaert, Christiaan et al., 2000, “Does Development Assistance Help Build Social Capital?”, WP20, March; Knack, Stephen, 1999, “Social Capital, Growth and Poverty”, WP7.

⁴⁸ Knack, 1999; Grootaert, 1998; Putnam, 1993; Fukuyama, 1995

embedded.”⁴⁹ Thus, it seems that depending on how different people from a society cooperate and hold their economic cohesion determines the pace and quality at which they foster economic well-being in the society.

Commencing with the concept of social capital, one of the first authors that dealt with social capital is Lyda Hanifan, who defined the notion in terms of denominations that had not been mentioned in the literature before like “good will, fellowship and sympathy”. These variables gained importance in his observations of individuals and the interactions they formed inside the family and in the broader context, while making up a “social unit.”⁵⁰ In addition, other authors have also contributed to giving importance to the concept⁵¹. Glenn Loury explains the concept of social capital as a set of subtle assets in families and groups that encourage social development.

Alternatively, Robert Putnam saw social capital as an array of horizontal associations between people which foster cooperation for the mutual benefit of the community. He found that there is causality between good governance and levels of “voluntary associations” in a society while observing the vast differences of northern and southern Italy⁵². Stretching further, Diego Gambetta examines the linkages between local groups,

⁴⁹ Bhuiyan, Shajahan and Hans-Dieter Evers, 2005, “Social Capital and Sustainable Development: Theories and Concepts”, Center for Development Research.

⁵⁰ Hanifan, Lyda Judson, 1920, “The Community Center” Silver, Burdett;

⁵¹ Other authors have given remarkable contributions to the topic of social capital. See, Bourdieu, Pierre and Jean-Claude Passeron, 1990, “Reproduction in Education, Society and Culture”, Sage Publications; and Loury, Glenn, 1977, “A Dynamic Theory of Racial Income Differences in Women Minorities and Employment Discrimination”, ed. P.A. Wallace. Lexington MA.

⁵² Putnam, Robert D., 1993, and 2000, “Bowling Alone: The Collapse and Revival of American Community”, New York

the governmental institutions and market motivations through the prism of fostering trust patterns in the society.⁵³

Furthermore, James Coleman extended the definition of social capital with the network of vertical associations in the society. He analyses the hierarchical construct, asymmetrical distribution of resources, institutions, governments, rule of law, and the court system⁵⁴. His arguments go hand in hand with Douglass North's vertical conceptualization of social capital based on honest change and transformation of institutions. These reforms, as per North, are immediately perceived by the social environment; inducing an atmosphere for human collaboration and adding to the economic development.⁵⁵

1.3.1. Types and the Measurement of Social Capital

Examining the multidimensional aspect of social capital, Paul Collier notes the diverging concepts of “government” social capital and “civil” social capital.⁵⁶ The state initiatives, policies, measures and institutions that affect the associations between people⁵⁷ to enhance economic progress are defined by the first concept. The other “civil” nature of social capital that is brought forward by Collier denotes social norms, aggregate cultural

⁵³ Gambetta, Diego, ed. 1988, “Trust: Making and Breaking Cooperative Relations”, New York: Basil Blackwell.

⁵⁴ Coleman, James S., 1988, “Social Capital in the Creation of Human Capital”, *American Journal of Sociology* 94, p.95-121.

⁵⁵ North, Douglass, 1990.

⁵⁶ Collier, Paul, 1998, “Social Capital and Poverty”, World Bank SCI, WP 4.

⁵⁷ These include, among others: enforcing contracts and property rights, legal protection, rule of law, equal distribution of capital, equal treatment and fairness.

values, trust and the amount of associational networking between non-kin members of the society. The “civil” social capital’s integral pieces are important factors that contribute enormously to the mutual cooperation and the capacity of the people to work together for development and mutual wellbeing.

Concentrating further on the issue of social capital, the literature identifies three main distinctive themes of social capital.⁵⁸ The first characteristic is the bonding of social capital, which underlines associations between family members, close friends, neighbors and work acquaintances. The second division is bridging social capital. This emphasizes connections to other people that are not in the family circle, further from the vicinity and indicate contacts with people less acquainted with⁵⁹. The third mode is indicated by the set of associations that are formed and are maintained on a vertical line, stressing associations to people in power, governmental officials, political representatives and financial institutions.⁶⁰

The boundaries between the first two different modes of association will vary on a case-to-case basis and context. The boundaries between bonding and bridging are most accentuated in analyzing social capital in politically fragile societies involving different ethnic, religious or any kind of divisions, and mostly the accent is on constructing and

⁵⁸ For more see, Putnam, Robert D., 2000; Gittel, Ross J. and Avis Vidal, 1998, “Building Social Capital as a Development Strategy”, Sage Publications; and Narayan, Deepa, 2002, “Bonds and Bridges: Social Capital and Poverty”, J. Isham et al. eds, Northampton, MA, pp. 58-81

⁵⁹ *Ibid.*

⁶⁰ Woolcock, Michael, 1998; World Bank, 2000, “World Development Report 2000/2001: Attacking Poverty”, Oxford University Press, NY; and World Bank, 2002, “Empowerment and Poverty Reduction: A Sourcebook”, Washington D.C

maintaining those associations. As far as linking social capital is concerned, its importance lies in analysis concerning direct participation in governmental decision making, issues of corruption and nepotism and the boundaries between bonding and bridging on one side, and linking social capital on the other, are rather clear.

Concentrating further on social capital, Banfield, Putnam and Fukuyama have put forward the influence of trust, institutions, random networks of associations, economic development, and have created links and tried to measure social capital.⁶¹ The most important paradigm that these authors underline is that variables like trust, “secondary associations” and civic participation directly encourage economic performance, and therefore any attempt to measure social capital in a society would be streamlined through the variable of trust and citizen participation. In this thesis though, I shall concentrate only on the variable of trust and its effects on economic affairs.

Finally, while accepting the different views and modes of social capital in the academic literature, it is not the purpose of this thesis to settle the healthy debates surrounding this issue, but rather to provide an inclusive overview of the literature on the concept of social capital. Moreover, the aim is to rely on the variable of trust as a proxy to account for the amount of social capital of the Albanian population in Albania, Kosova and Macedonia. Although all three types: bonding, bridging and linking of social capital might emerge

⁶¹ Social capital has been conceived and measured in different ways; from an individual level, to households and entire societies. A study conducted by Knack and Keefer tries to get direct measures of trust and civic cooperation which indicators they use as a proxy to count for social capital by using data from the World Values Surveys for a sample of 29 countries. For more see: Glaeser, Edward L. et al., 2002; Fukuyama, Francis, 1995; Knack, Stephen and Philip Keefer, 1997, “Does Social Capital Have an Economic Payoff?”, *The Quarterly Journal of Economics*, Vol. 112, No. 4, MIT Press, pp. 1251-1288.

and be taken into account, my main focus will be on the horizontal aspect of associations, *i.e.* bonding and bridging social capital. This approach includes more subjective questions such as those pertaining to perceptions of trust in outer-kin relationship, secondary associations and generalized trust towards coupled with the easiness of forming and developing connections on a horizontal plane.

2. Summary of the Aims and Hypotheses

2.1. Research Question

Why do the different sociopolitical conditions that are imposed on the ethnic Albanian population in the Balkans not result in different levels of economic development beyond state boundaries?

2.2. Aims

- Reach a certain level of clarity observing the hardships of ethnic Albanians in the cooperation with other ethnicities or groups and examine their treatment by the institutions and ruling structures in Albania, Kosova and Macedonia;
- Analyze and compare the overall trust patterns in Albania, Kosova and Macedonia as results of their respective histories;
- Observe the direct effect of low trust on social capital and therefore the robustness of the economic performances of Albanians;
- Test hypotheses using empirical data of measured levels of trust in Albania, Macedonia and Kosova.

2.3. Hypotheses

- The levels of low trust that were maintained in the Albanian society throughout history, directly affected the low number of associations outside the close circle of family, kin and acquaintances.

- The severe treatment of ethnic Albanians by the institutions and governing structures in Albania, Kosova and Macedonia, particularly in the twentieth century explains for the strong attention to family and kin ties, but also accounts for the low levels of trust towards outsiders in contemporary times.

- The low amounts of social capital as a result of low trust between the relations of Albanians, and Albanians and other groups, account for the low economic performances in the respective societies.

3. Family and Kinship amongst Albanians⁶²

*“In the family is included the people of the household; when these increase, they divide into Brotherhoods, Brotherhoods into Clans, Clans into Tribes, Tribes into Banners, and these all together are gathered into one greater Family, which is called the Nation, having one homeland, one blood, one language, and one tradition”*⁶³

*[F]amiliarity, based on kinship or shared circumstances ... is such a strong provider of associational life because the collective good that is posited as of equal worth than the individual's interests is not seen as an external preference but as a constitutive part of the self”*⁶⁴

Long before the contemporary rules, regulations and legal norms came into prominence in the region where the Albanians reside, their way of life and existence was structured consistent with various levels of inclusiveness and exclusiveness based upon kinship, territory and local administration.⁶⁵ While the importance of some of these ancient norms and definitions is still prominent with the contemporary Albanian, the knowledge and analysis of such customary standards among the population is sporadic.

⁶² The aim of this section is to provide a certain level of clarity observing the family values, structure and tradition of close ties within the ethnic Albanian communities in Albania, Kosova and Macedonia.

⁶³ This prologue is taken from “Kanuni i Lekë Dukagjinit” (The Code of Lekë Dukagjini), Book 2 - Family, Paragraph 19. Here I draw of the English translation by Janet Reineck.

⁶⁴ Seligman, Adam, 1997, “The problem of trust”, Princeton, Princeton University Press, NJ, p.79

⁶⁵ Reineck, Janet, 1991, “The Past as Refuge: Gender, Migration, and Ideology among the Kosova Albanians.” Ph.D Dissertation, University of California at Los Angeles

Moreover, Albanians are categorized into two groups based upon their two major language dialects: *Gheg* in the north and the *Tosk* in the south. Kosovar-Albanians fall into the northern, while the Albanians from Macedonia belong to both south and northern groups according to their geographical position. In addition, the social structure amongst Albanians before WWII was mainly tribal in the north and semi-feudal in the central and southern regions. The tribesmen from the northern part of the country had a long tradition of a medieval way of life, well preserved in the twentieth century and were considered the last people in Europe to preserve tribal autonomy.⁶⁶ This tribalism hybridized and weakened in central and southern Albania as a consequence of the increased contact with traders, foreign invaders and armies. This legacy of increased interaction was missing in the north because the terrains are mostly mountainous and barely reachable. The same deficiency of closer interaction with foreigners is valid for the Kosovar Albanians and those from Macedonia.

Albanian history of regulating their social and family lives in their vicinities dates from the early XIV century. One of the most significant regulatory norms in Albanian history is *Kanuni i Lekë Dukagjinit* (*The Code of Lekë Dukagjini*) which embodied a set of customary laws by which the northern clans of Albania were ruled from about the fifteenth up to the beginning of the twentieth century, although its use still remains until day today. These codified customary norms regulated virtually every aspect of the

⁶⁶ *Ibid.*

Albanian social life,⁶⁷ a considerable range of family and intra-family matters, including marriage protocols and set of rules regarding blood feuds (blood revenge).⁶⁸

With the institution of the Codes in the Albanian society, and particularly after, the family was the basic unit of the Albanian social structure and a referring base for further relations. To a great extent, the authority that the family and kinship gained with the strict regulations of *the Code* and maintained thereafter, supplanted that of the Ottoman rule. The same is valid also for the communist state in Albania and Yugoslav in Kosova and Macedonia. Even in modern times the importance of kinship and the relations in the ethnic Albanian family members represent the basis of trust and communication, and as such it has been cultivated and nourished for ages.⁶⁹ Before and throughout the Ottoman reign in Kosova, ethnic Albanian villagers lived in extended families of up to 100 members.⁷⁰ Interesting is that although the traditional extended family structure eroded steadily after World War II, extended families of twenty to forty members still lived within walled compounds in the beginning of the 90's.⁷¹ Blood vengeance, arranged

⁶⁷ In the Albanian history, there are also proofs of other canons: “Kanuni I Skenderbeut” (The Canon of Skanderbeg), which functioned in the XIV and XV century, and the “Shartet e Idriz Sullit (The “Laws” of Idriz Sulli)” which existed in the XVIII century. For more see, Biçoku, Kasem, 2005, “Aleksandri i Madh në Kujtesën Historike të Skenderbeut dhe të Shqiptarëve”(Alexander the Great in the Historical Memory of Scanderbeg and the Albanians), Historical Studies No. 1-2; Murzaku, Ines A. ; Dervishi, Zyhdi, 2003, “Albanians’ First Post-Communist Decade”, East European Quarterly.

⁶⁸ The Code is divided into thirteen sections: Church, Family, Marriage, House, Livestock and Property, Labor, Transfer of Property, Spoken Word (Oath Taking), Honor, Damages, Law Regarding Crimes, Council of Elders (Judicial Law), and Exemptions and Exceptions. For more see, Hutchins, Raymond, “The Code of Leke Dukagjini”, In Albanian: “Kanuni i Lekë Dukagjinit”, *Frosina Information Network*, Boston, MA, Article posted: Tuesday, August 6, 1996

⁶⁹ Durham, Mary Edith, 1909, “High Albania”, Edward Arnold, London, For more, see the digital version at <http://digital.library.upenn.edu>

⁷⁰ *Ibid.*

marriages, and polygamy are not uncommon until day today in the contemporary Albanian society either.⁷²

Also, the social structure of Albanians is heavily tied to reliance on the *fis*⁷³, but also to the extended group of relatives⁷⁴. Up until the nineteenth century, Albanians thought of themselves exclusively in terms of *fis* and territorial affiliations. Such allegiances towards traditional denominations exist even today.⁷⁵ In modern times, the ethnic Albanian family is structured according to a virilocal⁷⁶ rule of after-marital residence. This resembles with previous tribal social organizations. In rural areas, most marriages are arranged, and upon marriage, the bride usually moves in with her parents-in-law, close kin and other extended family. In urban areas, the woman may live with her husband's close family. The children in the Albanian family will be assumed that they belong, but also identified by blood lines to their paternal line of kinship and *fis*. Moreover, the effects of kinship and familiar associations are so influential that in many parts of the Albanian inhabited

⁷¹ Reineck, Janet, 1991

⁷² The Canon still has its roots in part of the Albanian society. Its use was resurrected after the end of the communist regime. An article in *Tirana Times*, an Albanian weekly, dated June 4th, 2005 that as much as 734 families in Northern Albania actually are involved in blood feuds. For more see, Gellçi, Diana, 2005, "Gjakmarrja: Albanian Highlander's Blood Feud as Social Obligation", Albanian Institute for International Studies, Tirana; and Kadare, Ismail, first edition 1978, "Prilli i Thyer (Broken April)", 2001 edition Saqi Books, London

⁷³ Ethnic Albanian identity is denoted by *ndera* (honor), *besa* (the oath), and the *fis*. *Fis* is understood as a tribe that traces back its origin to one or several common male ancestors. For more, see: Murzaku, Ines A. and Zyhdi Dervishi, 2003; and Reineck, Janet, 1991

⁷⁴ The extended family or *farefis*, is the first level of descent smaller than the clan. It is a patrilineal descent group, the widest group of relatives whose blood ties are, in principle, known. For more see, Reineck, Janet, 1991

⁷⁵ *Ibid.*

⁷⁶ When husband and wife, after marriage, move to the husband's kin's home to live.

areas, be they rural, sub-urban or even urban, in the absence of institutional presence and authority, a degree of social order is sustained through family and kinship ties.⁷⁷

Looking at the huge Albanian emigration which comes from all three states, reports show that family, kin and the close circle of acquaintances are also decisive in the decision-making process to emigrate.⁷⁸ As per one of the scholars who have studied the Albanian emigrations, Russell King, much of the decisions to emigrate are made at the family rather than the individual level. The significant role of the family lies in the initiation and the establishment of social networks upon arrival in countries of origin. The close set of connections which are maintained with the home country after settling elsewhere, remains as support system for the people left behind which did not emigrate.⁷⁹ What is more, many of the salient networks of organized crime, popularly known as “Albanian Mafia” also operate on similar social network structures of family, kin and friends.⁸⁰

⁷⁷ Koci, Arianit, 2005, “Rebirth of an Idea: Community Policing in Albania”, The Alexander Nash Albanian Studies Programme, University College London

⁷⁸ See, Çaro, Erka and L.J.G. van Wissen, 2007, “Migration in the Albania of the Post-1990’s”, South-East Europe Review, pp. 87-105; and Piperno, Flavia, 2003, “Remittances Enhancement for the Local Development in Albania”, CeSPI, Centro Studi di Politica Internazionale, WP4.

⁷⁹ See, King, Russell and Vullnetari, Julie, 2003, “Migration and Development in Albania”, University of Sussex, WP C5, Brighton; and, King, R. and Vullnetari, Julie, 2006, “Orphan Pensioners and Migrating Grandparents”, pp. 783-816.

⁸⁰ Vullnetari, Julie, 2007, “Albanian Migration and Development: State of the Art Review”, IMISCOE WP18.

4. A Historical Overview of the Communist Legacies of Albania, Kosova and Macedonia

Looking at the circumstances that have accompanied the Albanian populace throughout the past epochs of Ottoman rule, the troubled communist era and the post-socialist tribulations of the 90's, it seems that the ethnic aggravation of the past has imposed its significant costs and influence on the present economic well-being of Albanians. The aim of this section is to portray the conditions that the communist regimes have exerted to the Albanian population and the implications of such conditions on the patterns of trust. Moreover, this section shows today's economic picture of Albania, Kosova and Macedonia as a result of those communist times. Moreover, I examine the Albanians and argue that the communist policies actually fortified furthermore the kinship and strong family ties. This induced situation made it possible for the Albanians to keep a status quo in low economic progress and learn to co-exist in parallel systems, regardless whether those systems were political, economic or social.

4.1. Albania's Communist Legacy

The fall of the Iron Curtain found Albania in a somewhat disadvantaged posture, since communism under Enver Hoxha had brought the country to its knees with cataclysmic economic policies. The Communist Party practiced a combination of ruthlessness and quasi-reforming social policies, imposing economic and social measures that brought a terrible price to the population in the times to be. The population was subjected to systematic repression, endemic scarcity, censorship of civil liberties and political

affiliation, as well as widespread prohibition of traditional and religious practices.⁸¹ Albania practiced a stern Stalinist philosophy of forced industrialization and existed under a self-imposed isolation⁸² and quasi-nationalistic policies, thus shutting itself from the world and modernization for decades.⁸³

The period of Albania under communism is described as “quintessentially dystopian, a bleak inventory of bloody purges and repression ... cacophony of bitter polemics with real and fantasized enemies that the outside world barely took time to notice.”⁸⁴ As far as international relations are concerned, with the end of its collaboration with neighboring Yugoslavia in 1948, the Soviet Union in 1960 and China in 1978, Albania isolated itself from the world fearing an unrealistic invasion from abroad. In that xenophobic framework, Albania built one million bunkers and compiled an extraordinary arsenal of conventional weapons to fight an invader that never came.⁸⁵

Moreover, Hoxha’s communist elite terrorized the entire Albanian population, pushing them into obedience, using a brutal police force to maintain an absolute and “reformed”

⁸¹ Library of Congress, Federal Research Division, Country Studies for Researchers, Area Handbook Series: Albania; Archived data from April 1991

⁸² This was to some degree different from other former communist states

⁸³ For more see, Biberaj, Elez, 1990, “Albania: A Socialist Maverick”, Westview Press, Colorado; and Rugg, Dean S., 1994, “Communist Legacies in the Albanian Landscape”, Journal article, The Geographical Review, Vol. 84

⁸⁴ Library of Congress, Federal Research Division, Country Studies for Researchers, Area Handbook Series: Albania; Archived data from April 1991

⁸⁵ “Human Rights in Post-Communist Albania”, March 1996; and Southeast Europe Online, Albania Profile, <http://www.hrw.org/summaries/s.albania963.html>, and <http://www.southeasteurope.org/>

order, non-binding by any legal, ethical, religious or rational norms and brainwashing them with propaganda.⁸⁶ Enver Hoxha had absolute domination and denied the Albanians' the most fundamental human and civil rights with the pretext of defending the integrity of the country. Albania's "former party leadership created for itself every opportunity to acquire privileges and enrich itself while the people were deceived by bogus and cynical propaganda about a struggle against privileges, luxury, and inequality."⁸⁷

As an illustration to the repression the ordinary Albanian was facing, the archived data from the U.S. Library of Congress note that the communist regime denied the rural population of their landholdings, left them with tiny personal plots, and used force to enlist them in collective hard labor initiatives. Over the years, the communists even more reduced the size of the personal land plots allowed to farmers. The archives show that law enforcement also induced bans on selling the rural products in the cities and punished the farmers that disobeyed this norm. What is more, the regime also involved in collecting the privately held livestock throughout the country in 1981, which further contributed to the aggravation and increased internal isolation of the Albanian population.

As Enver Hoxha himself was from the southern part of the country, there was a continuing discrimination and inequity of the citizens from the north, even though the official state policy was equality in all matters. His economic and social guidelines

⁸⁶ *Ibid.*

⁸⁷ U.S. Library of Congress Archives, 1991, "Country Studies; Albania: Social Structure under Communist Rule"

strongly pointed to members of his southern clan, favoring families from the southern regions.⁸⁸ In this context, the northerners were systematically discriminated. This misbalance is shown by the percentage of southerners in the six structures of Hoxha's Politbureaus throughout his regime: from a hundred members, 82 came from the south, while only 18 were from northern Albania.⁸⁹ As communism ended in the 90's, the Albanians in Albania remained under systematic isolation imposed by the regime, but also an internal confinement within family structures to escape from Enver Hoxha's reign.

4.2. Albania's Economic Indicators

Albania had a somewhat institutionalized economy, although it was to a large extent improvised.⁹⁰ It was institutionalized because, Albania was a state since 1912, and as a state entity it had formal institutions that could initiate the roots of an economic infrastructure. It was improvised because the regime did not succeed in creating such an industrial environment while it resorted to repression, international isolation and self-sustainment in food production.

As a result, in modern times the economic growth in Albania is supported by a poor industrial and transportation infrastructure and an almost ruinous electric power system.⁹¹

⁸⁸ Gërxfhani, Klarita and Arthur Schram, 2000, "Albanian Political-Economics: Consequences of a Clan Culture", Discussion Paper 92, Tinbergen Institute and University of Amsterdam

⁸⁹ *Ibid.*

⁹⁰ Abdylmenaf Bexheti (Pro-Rector, South East European University) in discussion with the author, May 2008.

As in Kosova, the power supply is characterized by lengthy shortages, blackouts and power cuts on a regular basis. One major difference between Albania and Kosova in this respect is that the Albanian power infrastructure is chiefly dependent upon hydroelectricity as a relic of Albania's communist past strategies, while Kosova is reliant on thermoelectricity as a result of its major coal and mineral reserves.

The economy in the early 90's showed levels of \$450 per capita in 1990, crumbling to \$258 in 1992⁹². Moreover, the GDP rates fell by 10 per cent in 1990, 30 per cent in 1991 and 10 per cent in 1992.⁹³ In 1999, the GDP per capita was \$1,120, while in 2005 it accounted for \$1,530.⁹⁴ IMF estimates for 2008 reach levels of up to \$3,761. In 1980, as a comparison, the per capita GDP was \$1,060.⁹⁵

As an important factor in the Albanian economy⁹⁶, remittances account for 15 to 20 percent Albania's GDP. Emigrants from the Albanian state are estimated around 1 million⁹⁷, mostly in Greece and Italy. Moreover, the financial capital inflow from remittances had further increased from \$152 million in 1992 to \$1 billion in 2006.⁹⁸ The

⁹¹ Rugg, Dean S., 1994.

⁹² Gërzhani, Klarita, 2006, "Politico - Economic Institutions and the Informal Sector: A Spontaneous Free-Market in Albania", Conference Paper 10/06

⁹³ *Ibid.*

⁹⁴ World Perspective Monde, University de Sherbrooke, Country Statistics: Albania

⁹⁵ *Ibid.*

⁹⁶ The amount of money sent home by emigrants was 60 percent larger than the revenue generated by industrial production in 1999. For more see, UNDP, Albanian Human Development Report 2000, p. 43

⁹⁷ One million Albanian emigrants out of a population of 3.4 million represent 22-25 percent of the total population, or 35 percent of active population.

Albanian economy remains largely agricultural, with agriculture accounting for 53 percent of the GDP, and industry and services contributing 25 percent and 22 percent, respectively.⁹⁹ What is more, the estimated size of the informal economy varies between 30 percent and 50 percent of the gross domestic product. Only 30 percent of employed people in Albania are believed to be registered and pay social insurance contributions¹⁰⁰.

In addition, 90 percent of the total registered enterprises¹⁰¹ in Albania are privately owned by locals, most of them are considered self-employing businesses. Large enterprises, assumed to be drivers of the economy¹⁰², which employ more than 80 employees, comprise less than 1 percent of the total registered enterprises.¹⁰³ The scale of enterprise creation for 2006, a constant trend for a number of years, is 22 percent with 14,644 enterprises out of 80,574 in total.¹⁰⁴ According to the economic activity, 76 percent of the total economic activity in the country is dominated by the trading and

⁹⁸ Barjaba, Kosta, “Albania: Migration and Development. Exiting from vulnerability in Global Migration System”, Presentation by Ministry of Labor, Social Affairs and Equal Opportunities of Albania

⁹⁹ *Ibid.*

¹⁰⁰ United Nations Development Programme, 2007, “Combating extra legality in Albania”, Multimedia Centre NEWS. Article posted: February 5, 2007

¹⁰¹ The definition of enterprises by employees in Albanian is: micro-enterprises employ up to 5 employees, small-enterprises employ 6-20 employees, medium-sized enterprises 21-80, while large enterprises, more than 80 employees. For more see, Albanian Institute of Statistics, <http://www.instat.gov.al/>

¹⁰² Fukuyama, 1995

¹⁰³ Albanian Institute of Statistics, 2006, Report on Small and Medium Enterprises

¹⁰⁴ *Ibid.*

service sectors, while they dominate the economic activity of the newly formed enterprises by up to 81 percent.¹⁰⁵

The low proportion of large enterprises in the economy, as we can draw from the data of the Albanian Institute of Statistics, is most likely to cause a detriment to the development process. Considering the low trust patterns which exist in the Albanian society, we can assume that such a small number of businesses initiatives reaching a higher level of capital concentration and organization are hampered by the unavailability to generate numerous associations beyond local levels. The system created an atmosphere where vested trust in either non-kin community members or institutions of the communist Albanian state was a risky venture.¹⁰⁶

Moreover, if we observe the main weaknesses of the Albania's small and medium enterprises, which are future potential enterprises, most of them include difficulties of obtaining capital and technological advancement and lack of incentives to engage in further production or concentration of capital.¹⁰⁷ In addition, the lengthy bureaucratic procedures and lack of incentives to engage in exports show that the required institutional incentives and "embeddedness" observed in the case of the South East Asian success stories, do not exist in Albania. Moreover, considering that the *Asian Miracles* were also

¹⁰⁵ *Ibid.*

¹⁰⁶ Bexheti, Abdylmenaf, 2008

¹⁰⁷ "Small and Medium-Sized Enterprises in Countries in Transition", 2003, New York and Geneva, United Nations Economic Commission for Europe

low trust nations¹⁰⁸, such joint interaction of the business sector and the institutions was crucial to their rapid economic development.

4.3. Kosova's Yugoslav Legacy

As part of a Serbian province, the ethnic Albanians were repressed, they had little participation within the local administration organs and, up until the post-WWII period, they attended no schools and were prohibited publications in their own language.¹⁰⁹ The repression and appropriating of possessions of the Albanians in Kosova created a deeply felt resentment between the common population and the rulers. A passage from Vladimir Velebit notes the detrimental relations in place in that epoch between the Serbian officials and Kosovar Albanians: “[t]his hatred was transmitted from father to son over many generations and it became a constant factor in the relationship between the Serbs and the Albanians”.¹¹⁰ The internal politics of what was then the Serbian province of Kosova, was overshadowed by an acute backwardness and severe economic underdevelopment fueled by the systematic hatred between the Albanian majority and the Serbian minority.

¹⁰⁸ Fukuyama, 1995

¹⁰⁹ Velebit, Vladimir, 1999, “Kosova: A case of Ethnic Change of Population”, article in *East European Quarterly* XXXIII, No. 2; also see, U.S. Library of Congress Archived data from 1992.

¹¹⁰ *Ibid.*

The discrimination of the ethnic Albanians is also portrayed by the lowest literacy rate in Yugoslavia: 68.5 percent of individuals over age ten were able to read in 1979.¹¹¹ Moreover, based on the analysis of data from 1981, only 178,000 of 1.7 million Albanians in Kosova were employed, and from that, one in four held titular positions in the administration.¹¹²

While legislation was passed throughout Yugoslavia defining ownership and introducing a system of recording land rights, such laws never came to be implemented in Kosova.¹¹³ Later, Serbian legislature prohibited real estate transactions between Albanians and Serbs, and imposed limitations on access to housing and agricultural land by the Albanians in Kosova.¹¹⁴ During the 90's, the Albanian Kosovar population was completely excluded from the state and public sectors, while Kosovar state companies were employed by Serbs. The Albanians on the other hand, developed their own improvised budget covering expenditure for the parallel institutions and salaries for about 24,000 public employees.¹¹⁵

¹¹¹ U.S. Library of Congress, archive data from 1991

¹¹² *Ibid.*

¹¹³ For more see, Stanfield, David and Skender Tullumi, 2004, "Immovable property markets in Kosova", Kosovo Land and Property Rights Assessment, Terra Institute and Land Tenure Center, and "An Assessment of Property Rights in Kosovo", USAID Final Report, March 2004

¹¹⁴ For more see, Kelmendi, Nekibe, "Kosova Under the Burden of the Serbian Discriminatory Laws: Facts and Evidence", Article in Albanian daily *Koha Ditore* dated Jan 5, 2004; "The decision on declaring amendments 9-49 to the Constitution of the Socialist Republic of Serbia", Official Gazette of SRS 11/89, 28 March 1989; "Law on changes and supplements on the limitation of real-estate transactions", Official Gazette of Republic of Serbia, 22/91, 18 April 1991.

¹¹⁵ Mustafa, Muhamet, 1999, "Kosova Economicus: Does Viability Matter?", Riinvest Institute for Development Research, Prishtina, Kosova

The existence of stark economic disparities between the rest of Yugoslavia and Serbia in particular, and Kosova showed an unfair distribution of capital, national wealth and gains from natural resources extracted from Kosovar soil, such as coal and minerals.¹¹⁶ Such a reality of extreme political domination resulted in a disastrous economic infrastructure and no industries. Kosova could only cultivate labor-intensive and low profit economic undertakings such as textile manufacturing, agriculture and handicrafts.¹¹⁷

4.4. Kosova's Economic Indicators

The industrial capacities of Kosova gained roots after the 1970's, when there was an increase of their political position with the introduction of the reformed Yugoslav 1974 constitution which to some extent gave them, at least on paper, a status close to a republic. Before the 1970's there was a total absence of anything that would resemble economic progress or existence of an economic infrastructure.¹¹⁸ During those two decades, the 70's and 80's minor industrial production capabilities took roots, more less a basic industrial infrastructure involving metallurgy, textile and food processing.¹¹⁹ As such it was a copy of other industrial facilities in former Yugoslavia. The most notable economic progress in the territory of Kosova envisages a period of only two decades in

¹¹⁶ Mustafa, Muhamet, 1999

¹¹⁷ Mustafa, 1999

¹¹⁸ Bexheti, Abdylmenaf, 2008

¹¹⁹ Mustafa, 1999

the past century, which represents an insignificant period of time to achieve any economic infrastructure of progress for that matter.¹²⁰

With most of the employed either in small private businesses or agriculture, Kosova has insignificant labor-intensive industrial capabilities, while we can not envisage any major sophisticated manufacturing and capital-intensive industries in the short term.¹²¹ Work in Kosova's informal sector means not paying income taxes or pension contributions, have no social security or work insurance and sign no contracts.¹²² Presenting reliable statistical views of the informal economy in Kosova is rather difficult, but numbers show it revolves around 80 percent of the aggregate workers.¹²³ As a comparison, EU's average is 9 percent, while the numbers for the new EU member represent 20 percent of the workers functioning in the informal economy.¹²⁴

With no reliable official statistical information, USAID estimates show that the Kosova's per capita income fluctuated from \$1,000 in 1989, to \$400 in 1999.¹²⁵ Immediately after the removal of Serbian *de facto* rule, in 2000 the GDP per capita income rebounded to

¹²⁰ Bexheti, Abdylmenaf, 2008

¹²¹ Mustafa, Muhamet et al., 2001, "Prospects for Economic Development in Kosova and Regional Context", Vienna Institute for International Economic Studies.

¹²² Qorraj, Luan, 2003, "Grey market damages the economy", United Nations Mission in Kosovo Publications, <http://www.unmikonline.org/pub/focuskos/feb03/focuskeco4.htm>

¹²³ Glovackas, Sergejus, 2005, "The Informal Economy in Central and Eastern Europe", Global Labour Institute, <http://www.global-labour.org/glovackas.htm>

¹²⁴ *Ibid.*

¹²⁵ USAID: Kosovo Profile, <http://www.usaid.gov/missions/kosovo/>

over \$700.¹²⁶ Recent strategies for Kosova show that GDP per capita is projected to rise from an approximate of €1,063 in 2004 and €1,117 in 2006¹²⁷, to an optimistic forecast of €3,312 Euro by 2008.¹²⁸

Since 1999, and moreover from its independence, Kosova has no monetary policy¹²⁹, exchange rate instrument¹³⁰ or access to domestic or external borrowing. In much of rural Kosova, the jobs provided are virtually from within household and kinship lines. In modern Kosova almost all the businesses are run by families and the informal economy is probably larger than the formal economy.¹³¹ There are approximately 55,000 registered businesses in Kosovo, 56.7 percent of which are micro, 38.7 are small while only 5 percent are medium sized enterprises.¹³² Almost all of them are engaged in internal trade and services, while larger manufacturing capacities for domestic consumption and export are rare or almost non-existent.¹³³ These enterprises, which form the core of the fragile

¹²⁶ USAID Kosova Country Profile

¹²⁷ UNDP Kosova Human Development Report, 2006

¹²⁸ “The State of the Kosova Economy and Possible Ways Forward”, Economic Strategy and Project Identification Group, ESPIG Policy Paper No. 1, Prishtina, August 2004

¹²⁹ The Euro is the official currency of Kosova. It is also used by its government institutions and the International - UNMIK and European Union - EULEX administrations as well as by ethnic Albanian Population. The ethnic Serb populace in contrast, uses the Serbian Dinar.

¹³⁰ World Bank Report, 2004, “Kosova: Economic Memorandum”, Poverty Reduction and Economic Management Unit Europe and Central Asia Region, Report No: 28023-KOS

¹³¹ “Kosova Labor Market Study: Policy Challenges of Formal and Informal Employment” 2003, World Bank, Human Development Unit, Europe and Central Asia Region, Informal Labor Market Analysis, pp. 39-43

¹³² In Kosova, micro enterprises employ less than 10; small enterprises employ 10-49; while medium size enterprises have 50-249 employees. The classification used is according to the employee size classes used in the European Union. For more see, Mustafa, Muhamet et al., 2001; and Statistical Office of Kosova, Business Directory, Statistical Overview

¹³³ *Ibid.* Also see, Kusari, Mirlinda, 2007, “Private Sector Development: Kosovo Edition”, UNDP Initiative, Development and Transition, Vol. 3.

Kosovar economy, come across various obstacles to development which includes a better access to financial capital and low institutional subsidiary awareness.¹³⁴ Moreover, a lack of norms and institutional protection regarding the rule of law is also a factor that detracts growth in the Kosovar economy.¹³⁵ With no direct incentives or subsidies towards entrepreneurship and a serious lack of *know-what* and *know-how*, the private sector keeps recycling the same results within the security of small and closed networks.¹³⁶

As a report from 1980's shows "[s]ocial trends in Kosova mirror the forces behind an insufficient subsistence base and [Yugoslav] state policies which inhibit investment in productive private industry".¹³⁷ Thus, as we see, the Kosovar Albanians faced a repressing Yugoslav regime that excluded them from the possibility to contribute to their own economy and furthermore alienated them from their own indigenous resources. As a result, they nourished a culture of low-trust and isolated themselves in the safety of their own families, kin and close acquaintances throughout the Yugoslav and Serbian rule. Furthermore, engagement in free economic transaction was forced through informal channels, with no enforcement of the law for political reasons. This has caused a parallel system of functioning in all spheres of life, including the economy.¹³⁸ In such an environment mutual trust on a horizontal level is unlikely to gain grounds and develop,

¹³⁴ Mustafa et al. ,1991

¹³⁵ *Ibid.*

¹³⁶ La Cava, Gloria et al., 2000, "Conflict and Change in Kosovo: Impact on Institutions and Society", A Study by ECSSD - Eastern Europe and Central Asia Region, The World Bank, p.80

¹³⁷ Reineck, Janet, 1991, p.35

¹³⁸ The currency widely in use by Kosovars before the Euro was mostly the Deutsch Mark and not the Serbian Dinar.

since the levels of vulnerability from both the system and the individuals are very high. Associations were mostly based on the family, kin and closest of friends.

The Serbo-Yugoslav reign in Kosova has put its price in the furthering of the low trust levels in both horizontal and vertical axis. As in Albania, Kosova has no significant presence of large enterprises or any larger concentration of capital that would engage in capital intensive industries. The “embeddedness” between the institutions and the private sector has not existed before because of lack of independent institutions.¹³⁹ In the previous regime, this has not occurred, quite contrary, the contact with the institutions was seen as detrimental. With no extended hand by the institutions, the levels of trust in the Kosovar society for the time being are too low to generate a proportion of mutually-benefitting associations in the society that would generate rapid growth.

4.5. Macedonia’s Yugoslav Legacy

Since Macedonia’s formation as a Socialist Republic after World War II, its political life was colored by the passive and silenced discrimination of the ethnic Albanian population inhabiting Western Macedonia.¹⁴⁰ The relations between the two major ethnic groups remained prevalently silent and tense. Up to the 70’s, Albanian population was systematically repressed, excluded from the social organization and public capital. The treatment of the Albanians in Macedonia resembled those in Kosova, except for the 70’s

¹³⁹ Kosova just ended a recent decade long *status quo* regarding its political status. It has declared its independence and as a state is has serious International supervision in all spheres.

¹⁴⁰ Bexheti, Abdylmenaf, 2008

when the Kosovars gained a greater degree of autonomy within Yugoslavia, while the Albanians from Macedonia remained under the socialist Macedonian state.

The relations of the Macedonian majority with its numerous inner ethnic Albanian community worsened a great deal with the violent explosion of anti-Albanian nationalist sentiments elsewhere in Yugoslavia in the late 1980's. As a consequence, in 1989 the Macedonian Assembly ratified a constitutional amendment deleting the previous "Albanian and Turkish" constituents of the Macedonian Republic and explaining it as the "national state of the Macedonian People", a solution which existed in the 1974 Yugoslav Constitution¹⁴¹. This repositioning of the official policies paralleled the Serbian constitutional limitation of autonomy in Kosova. In addition, the Albanian language was eliminated from public use, while ethnic Albanian names were disallowed and banned from use, with the pretext of disturbing the ethnic equilibrium of the country.¹⁴² What is more, in the extraordinary efforts by the Macedonian authorities to decrease the high birth rate of ethnic Albanians in Macedonia, Albanian families were prohibited from having more than two children.¹⁴³

¹⁴¹ The Turkish community in Macedonia remains on the boundaries of 4 percent, compared to the Albanian population which numbers 25 percent (2002 official census). Unofficially, the percent of ethnic Albanians in Macedonia revolves around 30 percent. This divergence in numbers is backed by reports of NGO's and claims of ethnic Albanians that there is a numerous Albanian populace which still has not settled the Macedonian citizenship from its independence in 1991 because of strict regulations for citizenship and discriminatory policies of the Macedonian state towards ethnic Albanians. See also, Poulton, Hugh, 1995, "Who Are the Macedonians?", Hurst, London

¹⁴² U.S. Library of Congress, Archived data from 1991

¹⁴³ Milosavlevski, Slavko and Mirce Tomovski, 1997, "Albanians in the Republic of Macedonia 1945-95: Legislative, Political documentation, Statistics", NIP Studentski Zbor, Skopje

The lack of interaction between the two major ethnicities in Macedonia is a leftover from decades of Serbo-Yugoslav influence on the Macedonian intelligentsia and public. The silent repression against the Albanians in Macedonia throughout the Yugoslav reign was based, accented and channeled through the diversities in cultural traditions, birthrate, language, religion and geographic positioning. Thus, the discrimination in these denominators reflected a distancing of the Albanian factor, and causing it to create parallel social and economic systems of functioning in many respects. The ethnic Albanians were functioning mostly on the framework of a spiraled makeup of an informal economy and the vicinity of western Macedonia while retaining a relative economic status quo, as a result of their forceful exclusion from economic streams of Yugoslavia.¹⁴⁴

4.6. Macedonia's Economic Indicators

Slightly more than 99% of the companies¹⁴⁵ in Macedonia are registered as micro, small and medium enterprises, while large enterprises comprise less than one percent of the Macedonian economy. Reports show that the small and medium enterprises in Macedonia suffer from a weak institutional commitment towards subsidizing and supporting entrepreneurship, low technological development and an unfair competition from the informal sector.¹⁴⁶ A large informal economy covers up to 30 percent of the size of the

¹⁴⁴ USAID Former Yugoslav Republic of Macedonia Review

¹⁴⁵ The Macedonian definition of enterprises is: micro enterprises-10 people, small enterprises-not more than 50, medium enterprises-up to 250 employees, while large enterprises employ more than 250 individuals; Macedonian State Statistical Office Data

official Macedonian economy, although reliable official statistics is absent. GDP per capita fluctuated from \$1,917 in 2002, \$2,860 in 2005, and \$3,574 in 2007.¹⁴⁷ A buoyant forecast of \$4,269 per capita is projected by the International Monetary Fund.

Macedonia's economic problems are mostly accentuated through the institutional sphere. A crippled public governance, ineffective labor market regulations, political influence on judiciary, lack of the rule of law and citizen non-participation in the civil society are just some of the identified problems that portray the public governance. The weaknesses of the system and widespread social and ethnical discriminations since independence have accentuated the flaws of the public administration and institutions of the state, thus eroding the trust levels by fueling the informal economy, nepotism and corruption.¹⁴⁸

As far as the Albanians in Macedonia are concerned, they were excluded a priori from the mainstream of public capital, government subsidies and support for the economic initiatives in the former Socialistic Yugoslav Republic of Macedonia.¹⁴⁹ Albanians in Macedonia were publicly discriminated on an ethnic basis, without any equal opportunities with their Macedonian or Yugoslav counterparts, and as a result, they cultivated a continuous low-trust attitude towards institutions of the state all through the fifty years of the communist rule up until the Macedonian independence in the 90's. This

¹⁴⁶ "Small and Medium-Sized Enterprises in Countries in Transition", 2003, New York and Geneva, United Nations Economic Commission for Europe

¹⁴⁷ Macedonian State Statistical Office, Macedonia in numbers

¹⁴⁸ Gligorov, Vladimir, 2006, "Aiding Balkans", Global Development Network Southeast Europe (GDN-SEE), The Vienna Institute for International Economic Studies

¹⁴⁹ Bexheti, Abdylmenaf, 2008

widespread public and economic marginalization continued until 2001 with the start of the consensual democracy era.

The social connections that ethnic Albanians in Macedonia form in economic transaction are identified with a general lack of trust outside the domestic circle, or the ethnicity in general. As far as the number of enterprises situated by vicinity is concerned, it is assumed that 68% of the small and medium sized enterprises are situated in towns and places to which the Albanian population dominates the ethnic structure by 90%, is relatively predominant up to 50-60%, or has a significant presence up to 20% of the ethnic composition.¹⁵⁰ This shows to some degree of ethnic fusion of interests and economic activities that revolve in Macedonia. According to this, ethnic Albanians are a vital part of the Macedonian economy, yet they do not reap the benefits of a redistributive economy and institutional incentives.¹⁵¹

While living inside the framework of the state of Macedonia, representing 25.17 percent of the total population,¹⁵² ethnic Albanians need to develop further patterns of horizontal trust towards other members of the society but also to the member of the other ethnicities in general. Though, this combination of “linking” and “bonding” social capital did not occur at the terrain at any time during the Yugoslav rule or Macedonia’s independence. As a result, there are somewhat parallel systems of social and economic organization

¹⁵⁰ Here I analyze data taken from Macedonian State Statistical Office, Official census of Macedonia, 2002, and the Report on Macedonian Small and Medium Enterprises, 2006

¹⁵¹ Bexheti, Abdylmenaf, 2008.

¹⁵² *Ibid.*

within the same state between two major ethnic groups. Albanians mostly are represented in the informal economy, while the Macedonians predominantly in the formal.

4.7. A Cross-State Comparison of Albanians

An overall summary of the subsections above shows that the ruthless communist isolation imposed on the Albanians in Albania after WWII had cut off ties with the other ethnic fellows living in Kosova and Macedonia. The regimes in all the three cases were imposing relatively different burdens on the population. In Albania, the ordinary citizen was deprived of his/her tradition, religion, was forced to go on collective farms and hard labor, lived in a xenophobic and ethnically homogenous environment and was exploited by Hoxha's communist regime. In Albania, the communist regime promoted ethnic identity, encouraged higher rates of birth rates and invested a great deal in the education of citizens. Moreover, the mainly southern-Tosk political leadership in Albania with Enver Hoxha in charge was generally reluctant to undertake any action to help the Gheg-Kosovars who remained under a Serbian rule.¹⁵³ Moreover, the same regime differentiated and discriminated the Gheg-Albanians living in the north of Albania.

In Kosova and Macedonia the Albanians were forced to live in ethnically mixed or forcefully structured environments of mixed ethnicities. Contrary to Albania, the use of the Albanian language, education and media was not allowed and systematically

¹⁵³ Vickers, Miranda and James Pettifer, 1997, "Albania: From Anarchy to a Balkan Identity", New York University Press, p.144

discouraged.¹⁵⁴ On the other hand, the Albanians in Kosova and Macedonia were not isolated as their Albanian counterparts, at least not regarding international travel¹⁵⁵, and at least not until the 90's, when the whole region was put under increased scrutiny of visa regimes regarding international travel and possibility to emigrate.

Religion under the Yugoslav governance was generally allowed to some degree, as long as it did not threaten to become an ethnic movement. This was in direct contrast with the Albanian communist policies to promote secularism and diminish the religious aspect of the life in Albania. Moreover, most of the religious teachings and Islamic clerics and instructors in Kosova and Macedonia were mostly under the direct control and influence of the Yugoslav government. The traditional large family units and elements were preserved, in contrast to the Albanian communist government's tries to diminish tribal structures in northern Albania. Kosovar Albanians' way of life in such customary extended family units, unseen since World War II, was still evident in the Kosovar countryside even in the 1990's.

¹⁵⁴ The Serb institutions and administration labeled Albanians to be not a distinct nation but simply "Albanian-speaking Serbs". For more see, Banac, Ivo, 1995, "Nacionalno Pitanje u Jugoslaviji" (The National Issue in Yugoslavia), Durieux, Zagreb; and Malcolm, Noel, 1998, "Kosovo: A Short History", Macmillan London

¹⁵⁵ Communism usually brought mobility of the ordinary citizen to a halt. Emigration was officially prohibited and severely punished, as Albania under Enver Hoxha established itself as the most isolated and closed of the communist countries. Though, this was not the case in Yugoslavia, where gastarbeiter (guest worker) movements into Western Europe began to flourish about the 1960's. For more see, Holt, Stephen and Ken Stapleton, 1971, "Yugoslavia and the European Community", Journal of Common Market Studies Vol. 10, Issue 1, p.47; and Pattifer, James, "Balkan Asylum Seekers – Time for a New Approach", Briefing Paper 10.2, p.3, January 2004

In the context of Yugoslavia, even though Albanians were considered a nationality but not a nation, we can see a difference between the positions of the Albanians in Kosova and the ones in Macedonia. Surely, Kosova was denied a republic, but after the 1974 Constitution, Kosova had its own constitution and its own representatives on the federal bodies of ex-Yugoslavia. In that period, various small “pockets” of local development and sporadic increments of the well-being of Kosovar Albanians were observed up until the reign of Slobodan Milosevic. The Albanians in Macedonia did not have such representatives on a federal level, since they were living in the framework of the Macedonian state.

A major difference among the Albanians in Kosova and Macedonia is their political preference, as the Kosovars created a parallel state to the Serbian authority after the 90’s, while the Albanians of Macedonia participated in the framework of the political system of the Macedonian state, in the Assembly and the Government. Political autonomy was not on the Albanian agenda in Macedonia, but rather the focus was placed on achieving a partner-nation with their Macedonian counterpart.¹⁵⁶ Acknowledging this, in contrast to the Kosovar Albanians, the Albanians in Macedonia had no tradition of autonomy¹⁵⁷, as

¹⁵⁶ The position of Albanians was improved with the political consensus to change the Macedonian Constitution and the Ohrid Framework Agreement, although the Albanian issue in Macedonia still remains active and relevant.

¹⁵⁷ See Michael Schmidt Neke, 1994, “Makedonians Albaner: Konfliktpotential oder Stabilisierungsfaktor?” (Macedonian Albanians: Source of Conflict or a Stabilizing Factor), *Sudosteuropa*, Vol. 3-4.

they live for the most part in ethnically mixed areas, where they make up the majority or an important percentage of the population in Western Macedonia.¹⁵⁸

There are psychological, social and political differences between the communist legacies of the Albanians in Albania, Kosova and Macedonia. There are even lingual (dialectal and sub-dialectal) differences between the division south-north. Though, the similarity that joins the ethnic Albanians from these states is the economic performance that they achieved in the last century. As noted in subsections 4.2, 4.4, and 4.6, the economies that these states developed bear striking similarities. Firstly, their GDP's revolve around similar levels, showing similar concentration of capital around labor-intensive industries. Secondly, all three have large informal sectors within their economies, which employ a great deal of Albanians. Such "gray" networks within the economies are fostered by low levels of trust towards institutions and lack of incentives by those institutions to engage formally in the economy. Thirdly, a large micro, small and medium enterprise concentration of businesses exists in Albania, Kosova and Macedonia alike. In addition, a general lack of large corporations and capital intensive industries is a parallel for all three states. This shows the levels of institutional subsistence towards entrepreneurship and the lack of "embeddedness" of the governmental and the business sector needed to foster economic progress.

¹⁵⁸ Depending on the municipalities and cities, the percentage of Albanians in Macedonia differs from a 70-85% percent in Tetova (Tetovo) and Gostivar region, a 45-60 percent in Dibër (Debar), Kërçova (Kicevo) and Struga region, while the Shkupi (Skopje) and Kumanovë (Kumanovo) region includes 20-25 percent of ethnic Albanian composition (census 2002), For more see, Macedonian State Statistical Office, Census 2002; and Babuna, Aydin, 2000, "The Albanians of Kosovo and Macedonia: Ethnic Identity Superseding Religion", Nationalities Papers, Vol. 28, No. 1.

5. Measuring Trust

5.1. *Albania and Macedonia*

This thesis analyzes data collected from World Values Survey. These statistics are taken from conducted surveys in 1998 and 2001 in Albania and Macedonia. The scrutinized data tries to give a measure of trust in terms of: generalized trust (i.e. trust in other people), political trust, institutional trust and importance of family.

The number of respondents conveyed in the results of this survey in Albania (n=999 in 1998; and n=1000 in 2002), is similar to that in Macedonia (n=995 in 1998; and n=1055 in 2001). In Albania's part of the survey, the number of ethnic Albanians accounts for 98.3 percent. There are no data for 1998. In Macedonia's portion, the number of surveyed ethnic Albanians equals 20.9 percent in 1998, and 22.4 percent in 2001, compared with 72.2 percent and 71 percent of ethnic Macedonians in both, 1998 and 2001.

There are three age segments of the surveyed citizens accounting for a certain proportion of the respondents in the surveys: 15-29 year olds account for 27 percent and 25.8 in 1998 and 2002 in Albania. In Macedonia, these numbers vary between 24.6 and 25.9 percent for 1998 and 2001. In Albania, 30-49 year olds account for 44.4 percent for 1998 and 44.8 for 2002, while in Macedonia, 49.7 and 43.4 percent for 1998 and 2001. Finally, Albanian citizens aged 50 or more account for 28.3 percent in 1998 and 29.4 in 2002. In Macedonia, these numbers vary between 25.6 and 30.7 percent for 1998 and 2002, respectively.

Example questions used by the World Values Survey polls are the following: (1) ‘*Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?*’ and ‘*Do you think most people would try to take advantage of you if they got a chance, or would they try to be fair?*’ (Generalized trust); (2) ‘*How widespread is the extent of corruption in this country?*’ and ‘*Generally speaking, would you say that this country is run by a few big interests looking out for themselves, or that it is run for the benefit of all the people?*’ (Political trust); (3) ‘*Do you think that what the government is doing for people in poverty in this country is about the right amount, too much, or too little?*’, ‘*Could you tell me how much confidence you have in the justice system?*’, ‘*Could you tell me how much confidence you have in the government?*’ (Institutional trust); and (4) ‘*How important is family in your life?*’ (Trust in the family).

5.1.1. Generalized Trust

Figure 1 shows the first of the set of measurements regarding generalized trust.¹⁵⁹ The chart corresponds to the opinions given to the question:¹⁶⁰

- *Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?*

¹⁵⁹ See Figure 1 in the Figures and Appendixes section.

¹⁶⁰ This exact single question regarding generalized trust (i.e. trust in others) has been used before by researchers and scholars for ranking countries based on the levels of trust on cross-national and within-country analyses by using data from the World Values Survey. For more see, Inglehart, Ronald, 2000, “Culture and Democracy”, S. Huntington (eds.), Culture Matters Basic Books, NY, pp. 80-97; Putnam, Robert D., 1993; and Robinson, R. V. and Jackson, E. F., 2001, “Is trust in others declining in America? An age-period-cohort analysis”, Social Science Research 30, pp.117-145

The choice available to the respondents while answering this question was a scale of three choices: *Most people can be trusted*, *Can't be too careful*, and *Don't Know*. The percentage of inhabitants that were distrustful¹⁶¹ towards other people shows a rise from a 65.8 percent in 1998, to a 72 percent in 2002. In Macedonia the number of inhabitants that showed distrustfulness¹⁶² towards other people in 1998 and 2001 was 84.3 and 83.6 percent, accordingly.

Figure 2 shows the second from the set of measurements of generalized trust¹⁶³ (i.e. trust in others). The results shown correspond to the following question asked to the respondents in Albania and Macedonia:

- *Do you think most people would try to take advantage of you if they got a chance, or would they try to be fair?*

The choice available to the respondents while answering this question was a scale of three choices: *Would take advantage*, *Try to be fair*, and *Don't Know*.¹⁶⁴ The percentage of respondents in Albania that were distrustful¹⁶⁵ towards other people accounts for 49.3 percent in 2002. In Macedonia the number of distrustful inhabitants¹⁶⁶ towards other people in 2001 was 63.6 percent.

¹⁶¹ Respondents answered with *Can't be too careful*

¹⁶² *Ibid.*

¹⁶³ See Figure 2 in the Figures and Appendixes section.

¹⁶⁴ For this survey question there is data available from World Values Survey only for the year 2002 in Albania, and 2001 in Macedonia, accordingly.

¹⁶⁵ Respondents answered with *Would take advantage*

¹⁶⁶ *Ibid.*

As we can see from the data, both Albania and Macedonia cultivate low percentages of generalized trust, or trust in other people. More interesting is that these patterns of trust show a rise (Albania) or revolve around high numbers (Macedonia). Such low statistics correspond to the initial assumption of low trusting patterns in these countries.

5.1.2. Political Trust

Figure 3 portrays the first from the set of measurements of political trust.¹⁶⁷ The results shown correspond to the following question asked to the respondents in Albania and Macedonia:

- How widespread is the extent of corruption in this country?

The choice available to the respondents while answering this question was a scale of five choices: *Almost no public officials engaged in it, A few are, Most are, Almost all public officials are engaged in it, and Don't Know.*¹⁶⁸ In 1998, the percentage of Albania's inhabitants that believed most public officials are corrupt shows 43.1 percent, while those that believed all public officials are corrupt is 10.8 percent. In Macedonia the number of inhabitants that perceived most public officials are corrupt in 1998 is 29.3, while those that considered them all corrupt was 49 percent.

¹⁶⁷ See Figure 3 in the Figures and Appendixes section.

¹⁶⁸ For this survey question there is data available only for the year 1998 in both Albania and Macedonia.

Figure 4 shows the second from the set of measurements of political trust.¹⁶⁹ The results shown correspond to the following question asked to the respondents in Albania and Macedonia:

- Generally speaking, would you say that this country is run by a few big interests looking out for themselves, or that it is run for the benefit of all the people?

The choice available to the respondents while answering this question was a scale of three choices: *Run by a few big interests*, *Run for all the people*, and *Don't Know*. The percentage of respondents in Albania that perceived the country to be run by few big interests accounts for 51.5 percent in 1998, and 38.7 in 2002. In Macedonia the number of inhabitants that view the country run by few big interests was 59.6 percent in 1998, and 87 percent in 2001.

Both figure 3 and 4 portray a reality of low political trust in Albania and Macedonia.¹⁷⁰

From the observed statistics we can assume that a large percentage of people consider the corruption levels to be high in the bureaucrats and that both countries are run by concealed interests among the public officials. These statistics also correspond to the assumptions that political trust amongst the selected countries is low.

5.1.3. Institutional Trust

¹⁶⁹ See Figure 4 in the Figures and Appendixes section.

¹⁷⁰ The divergences we observe in Figure 4 show that the trust levels increased in Albania in 2002, while the same decreased in Macedonia in 2001. While observing these discrepant numbers we should bear in mind that 1997 was a conflict year for Albania. Moreover, 2001 is the year when a widespread armed ethnic conflict emerged in Macedonia. These years surely correspond to such fluctuations in the survey.

Figure 5 shows the first from the set of measurements of institutional trust.¹⁷¹ The results shown correspond to the following question asked to the respondents in Albania and Macedonia:

- *Do you think that what the government is doing for people in poverty in this country is about the right amount, too much, or too little?*

The percentage of respondents in Albania that perceived the government to do too little for people in poverty accounts for 81.3 percent in 1998.¹⁷² In Macedonia, the number of inhabitants that perceived the government is doing too little for the people in poverty is 81.8 percent in 1998.

Figure 6 shows the second from the set of measurements of institutional trust.¹⁷³ The results shown correspond to the following question asked to the respondents in Albania and Macedonia:

- *Could you tell me how much confidence you have in the justice system?*

The choice available to the respondents while answering this question was a scale of five choices: *A great deal, Quite a lot, Not very much, None at all, and Don't Know*. The percentage of respondents in Albania that stressed their distrusting views in the judiciary accounts for 33.2 percent¹⁷⁴ in 1998. In Macedonia the number of people that shared their

¹⁷¹ See Figure 5 in the Figures and Appendixes section.

¹⁷² For this survey question there is data available only for the year 1998 in both Albania and Macedonia.

¹⁷³ See Figure 6 in the Figures and Appendixes section.

¹⁷⁴ Respondents answered with *Not very much*

views on the judiciary answering with Not very much equals to 45 percent, while those that were extremely distrustful to the judiciary in 1998 was 25.1 percent.¹⁷⁵

Figure 7 shows the third from the set of measurements of institutional trust.¹⁷⁶ The results shown correspond to the following question asked to the respondents in Albania and Macedonia:

- *Could you tell me how much confidence you have in the government?*

The choice available to the respondents while answering this question was a scale of five choices: *A great deal*, *Quite a lot*, *Not very much*, *None at all*, and *Don't Know*. The percentage of respondents in Albania that perceived the government to be *Not very much* trusted was 47.5 percent in 1998 and this changed to 27.3 in 2002.¹⁷⁷ In Macedonia, the number of people that did not trust the government¹⁷⁸ was 39.2 percent in 1998, and 52 percent in 2001. On the other hand, 36 and 35 percent of the people in Macedonia trusted the government *Not so much* in 1998 and 2001, accordingly.

Again, figures 5, 6 and 7 show a scheme of low trust in institutions, although to some extent some numbers show slightly higher percentages of trust in Albania. Still, these statistics correspond to the assumptions on this thesis about a low citizen trust towards institutions of the state.

¹⁷⁵ For this survey question there is data available only for the year 1998 in both Albania and Macedonia.

¹⁷⁶ See Figure 7 in the Figures and Appendixes section.

¹⁷⁷ In 2002, 39.4 percent answered *Quite a lot*, in contrast to 27.3 and 14.1 percent that trusted the government *Not very much* and *None at all*.

¹⁷⁸ Respondents answered with *None at all*.

5.1.4. Importance of Family

Figure 8 shows the measurement of importance of the family.¹⁷⁹ The results shown correspond to the following question asked to the respondents in Albania and Macedonia:

- How important is family in your life?

The choice available to the respondents while answering this question was a scale of five choices: *Very important, Rather important, Not very important, Not at all important and Don't Know*. The percentage of respondents in Albania that perceived family to have a large importance equals 95.8 percent in 1998, and 95.9 in 2002. In Macedonia, the number of respondents that believed family has importance in life was 97.5 percent in 1998, and 97.9 percent in 2001.

Figure 8 shows a close match between the relevance of families in both Albania and Macedonia. Such high percentages of relevance completely correspond to the postulations in this thesis about the importance of family.

5.2. Kosova

There is a serious lack of information, statistics and data regarding Kosova. Moreover, the limited availability of reliable official figures and records makes research on the notion of trust in the Kosovar reality even harder. Besides the data scarcity, a World Bank sponsored study in Kosova, led by Gabriela La Cava et al. conducted a wave of

¹⁷⁹ See Figure 8 in the Figures and Appendixes section.

research and surveys in Kosova.¹⁸⁰ In that framework, a certain element of the study was devoted to measuring the levels of trust. In order to show the schemes of trust in the Kosovar society I shall refer to this study for data regarding institutional trust and any findings on generalized trust.

This particular study includes structured questionnaires intended to serve the measurement of institutional trust and to some extent generalized trust, although there was not statistics to support the postulations. The center of this investigation was showing the level of trust in local institutions and trust beyond the scope of the extended family. The major conclusion of the figures and collected information regarding generalized trust in Kosova was that “there is a lack of trust among people beyond the extended family system”.¹⁸¹

The data analysis in the aforementioned study is divided with respect to age, gender and location. For all types of respondents, trust did not rise above 34 percent, i.e. Kosova’s adults (n=455) had a more trusting attitude numbering 31.9 percent, while the youth (n=445) percentage of trust was 27 percent. Women (n=490) are shown to a degree more trusting than men (n=410) with 33.3 percent compared to 24.9 percent. In addition, in comparison to urban areas (n=415), rural areas (n=485) showed approximately similar levels of trust; 30.5 percent opposite 28.2 percent.¹⁸²

¹⁸⁰ La Cava, Gabriella et al., 2000, *Conflict and Change in Kosovo*

¹⁸¹ La Cava, Gabriella et al., 2000, , p. 38

¹⁸² *Ibid.*

5.2.1 Institutional Trust

The results shown correspond to the following question asked to the respondents in Kosova:

- *How much do you trust the following local institutions?*

The choice available to the respondents while answering this question was a scale of five choices: *Street group, Bashkësia lokale, Town/village council, Municipal administration, and Political parties.*¹⁸³

The data analysis from the first four areas, which are mixed rural/urban including the capital Prishtina, show lower levels of institutional trust.¹⁸⁴ In the Gjilan¹⁸⁵ area (n=200), which includes a slight minority of Serb population, trust was accounted for 26.5 percent. The predominantly urban area of Prishtina (n=210) shows the lowest degree of institutional trust with 20.5 percent. The Peja¹⁸⁶ region (n=120), levels of trust show a height of 34.2 percent. This is a result of pre-existing forms of a parallel system of governance in the colonial past under Yugoslavia and Serbia. Alternatively, in the Prizren¹⁸⁷ area (n=255) where the remains of a pre-existing parallel system of governance was not complete, trust levels accounted for 27.8 percent. The data from the study identify the rural area of Malishevë¹⁸⁸ (n=115) with the highest degree of trust in its local institutions with a 49.6 percent. Interesting for this region is that it has a very low level of

¹⁸³ *Ibid.*, p.98

¹⁸⁴ *Ibid.*

¹⁸⁵ City in eastern Kosova

¹⁸⁶ City in western Kosova

¹⁸⁷ City in southern Kosova

¹⁸⁸ City in central Kosova

international or domestic aid and assistance and has in active use traditional village councils as well as a history of a well functioning parallel system of governance opposed to the ex Serbo-Yugoslav institutions.

The statistics from these conducted surveys¹⁸⁹ indicate that respondents had varying trusting patterns regarding different types of local institutions. As far as *bashkësia lokale* (local community office¹⁹⁰) was concerned, 77.8 percent of respondents no longer recognized the existence of it, while in the areas where they were recognized, trust amounted only 11.2 percent. In relative terms, the three most trusted local institutions were the village council with 35 percent, the municipal administration with 40 percent, and political parties 40.6 percent.

5.3. Analysis of Trust and Company Size

With the data presented in Subsections 4.2, 4.4 and 4.6 we observe that in Albania and Macedonia there is a less than one percent proportion of large economies in their respective economies. In Kosova, there are no reliable statistics than show a presence of large enterprises within the registered businesses in its economy. Anyways, it is assumed that such companies are represented in smaller numbers than in Albania or Macedonia.¹⁹¹

¹⁸⁹ *Ibid.*

¹⁹⁰ It refers to local offices in the framework of municipalities as a lower system of local governance. Part of the Yugoslav neighborhood system of local governance.

¹⁹¹ Kusari, 2007; and Mustafa et al., 2001

Compared to the low levels of trust that are presented in this section we can observe that there is a strong connection between the low levels of trust exerted by the ethnic Albanians and the lack of large enterprises functioning in their respective economies. Such low trusting patterns in these societies inhibits increased interaction beyond narrow trust circles, thus accounting for the low social capital. As a result, the micro, small and medium enterprises which are at the core of these economies do not show a further growth to the scale of large enterprises, which explains the low economic development that is achieved in these states.

Conclusion

The paths of economic development of the Albanian people in the region of the Balkans, for the last five to six decades have not been able to develop as culture of high trust, or to develop further contacts and relations with other cultures or ethnicities for different reasons in Albania, in Kosova and in Macedonia. The specifics in their history of dealings with other political regimes in place have made the ethnic Albanian trusting patterns develop similarly in their vicinities, in different states. As a result from the overall analysis, it is difficult to acknowledge that the Albanian natives have created significant amounts or possibilities to foster social capital in the course of the last century.

The institutional incentives that the Asian Miracles acquired by their respective governments in the forms of providing new markets for local produce, strong lobby channels for domestic capacities, support in research and development and the supply of inputs and capital do not appear to exist in the Albanian course of economic underdevelopment in the three states of interest. In fact, in the overall Albanian context we have a rather opposite situation where the state has hampered possibilities for growth during the communist times. After the 90's, up until recent times we observe the states of Albania, Kosova and Macedonia entangled in unsuccessful attempts to increase the living standards and an general maintenance of the low trust patterns.

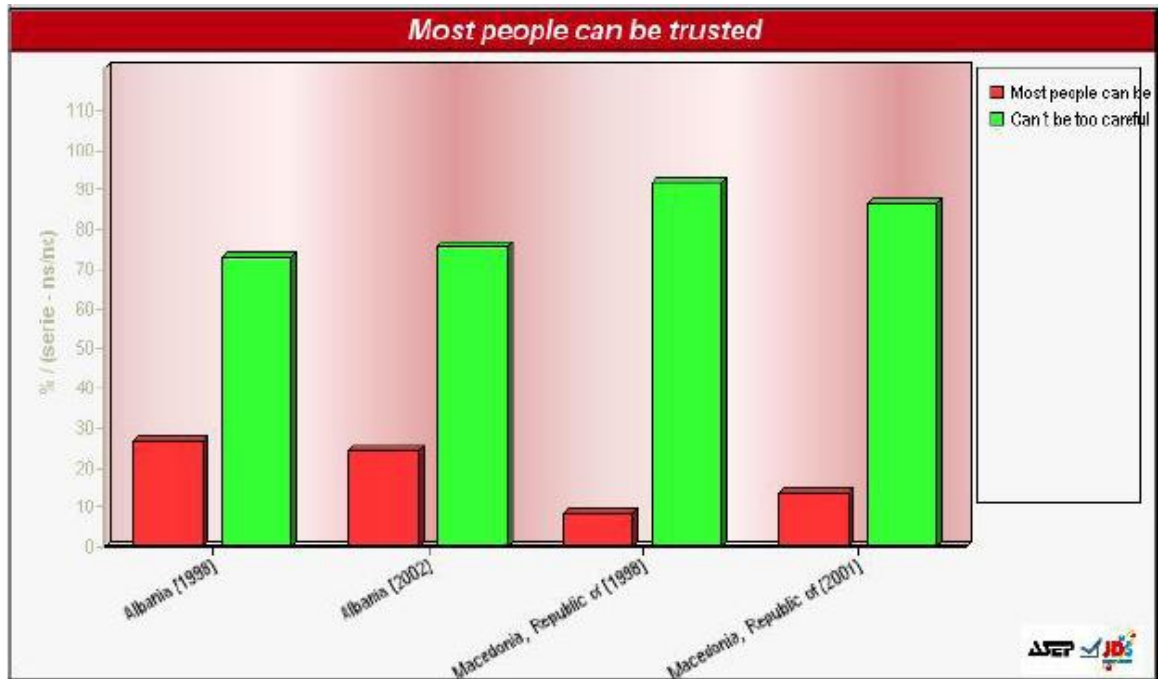
This thesis shows that trust plays an important function as a catalyst for further economic endeavors and stimuli in underdeveloped and developing countries where institutions

have a low level of reliability and there is a lower level of the rule of law. Economic systems in these countries are relatively unsustainable to that extent that interactions of the business community and the institutions are politicized and corrupted. There is a common attitude among the private sector about staying as further as possible from any interaction with the institutions of the state and public officials as to avoid vulnerability. This trend of thought certainly awakes an interest to analyze further the interactions of businesses and governments as to see the amount of trust and degree of trustworthiness that they foster.

Concluding, it would also be interesting to observe the other constituents of the Albanian populace throughout the world and analyze the ways in which they develop trust outside their immediate families towards non-kin and institutional factors. Moreover, cultivation of non-kin associations and economic progress indicators of Albanians worldwide is another dimension at which this thesis could extend further and thus provide a more thorough explanation of the implications that trust vests on low economic progress and connections between people.

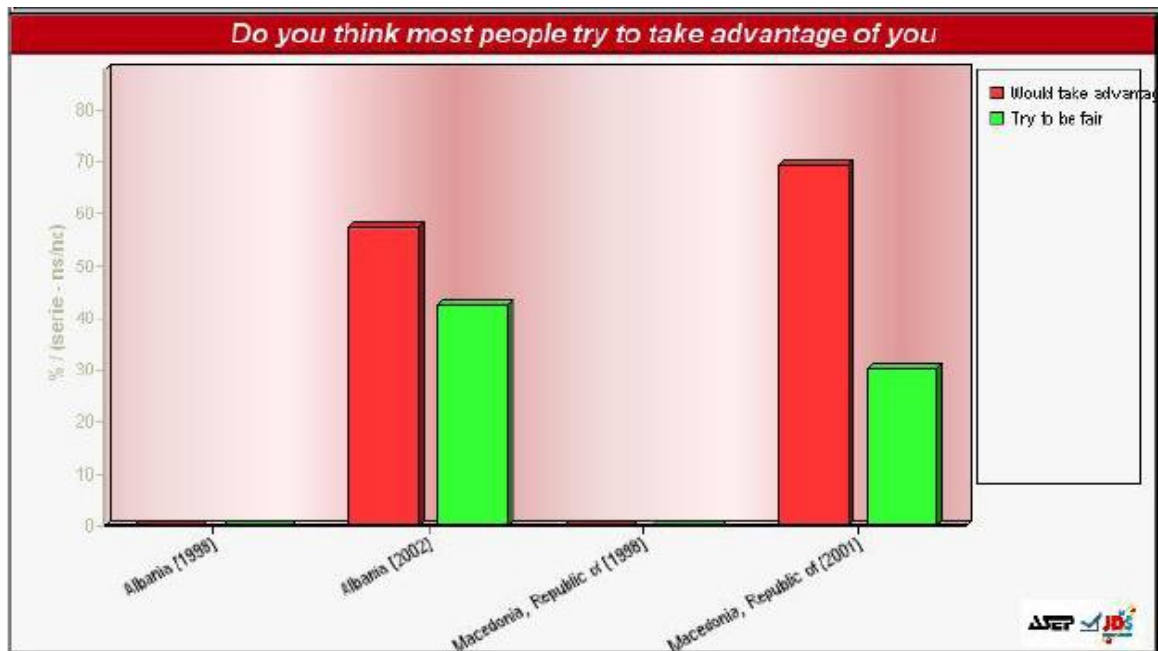
Figures and Appendices

Figure 1.



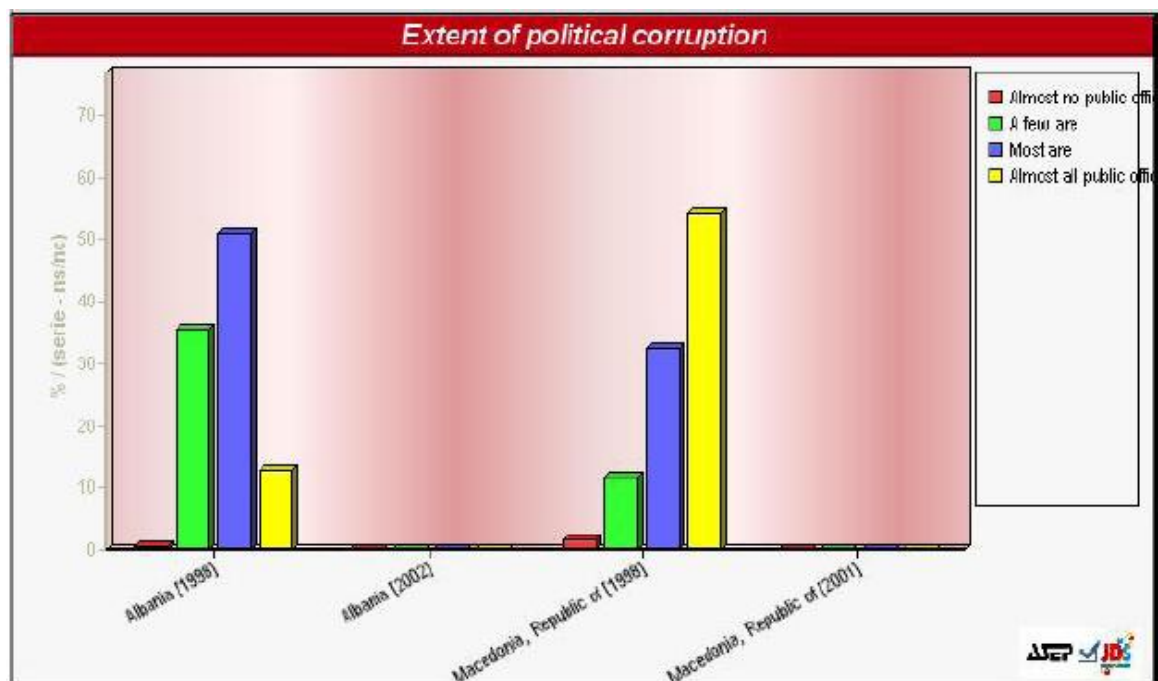
Source: World Values Survey Database - The Values Survey/Los Estudios de Valores, 1981-2004; <http://www.worldvaluessurvey.org>

Figure 2.



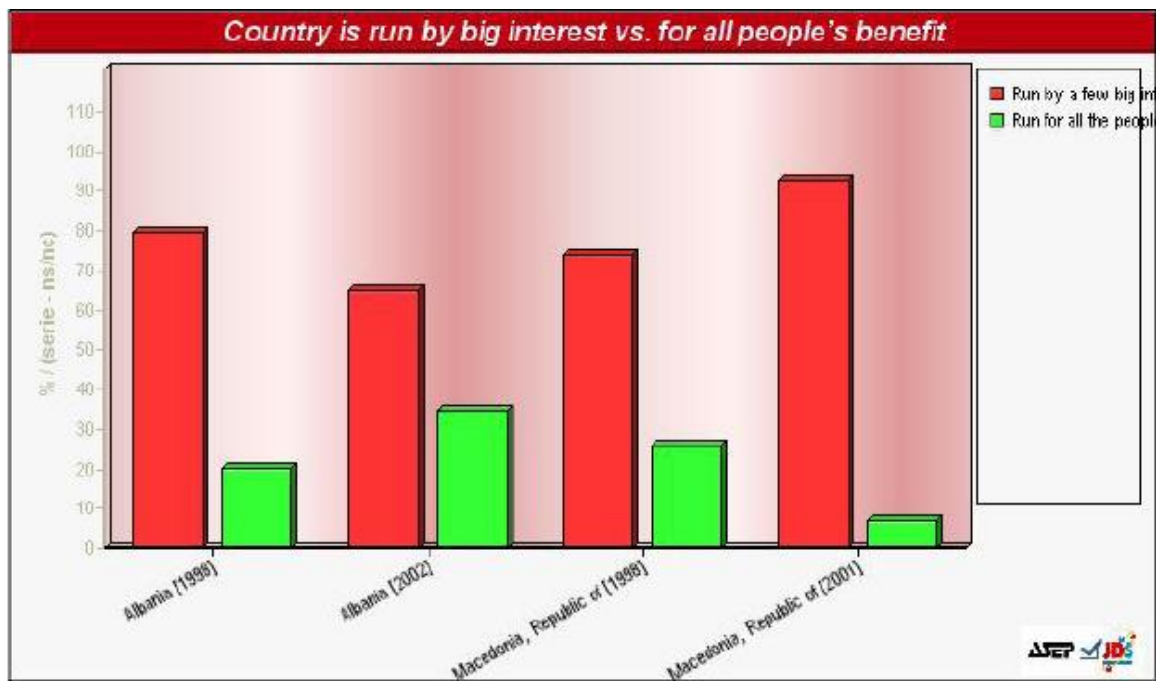
Source: World Values Survey Database - The Values Survey/Los Estudios de Valores, 1981-2004; <http://www.worldvaluessurvey.org>

Figure 3.



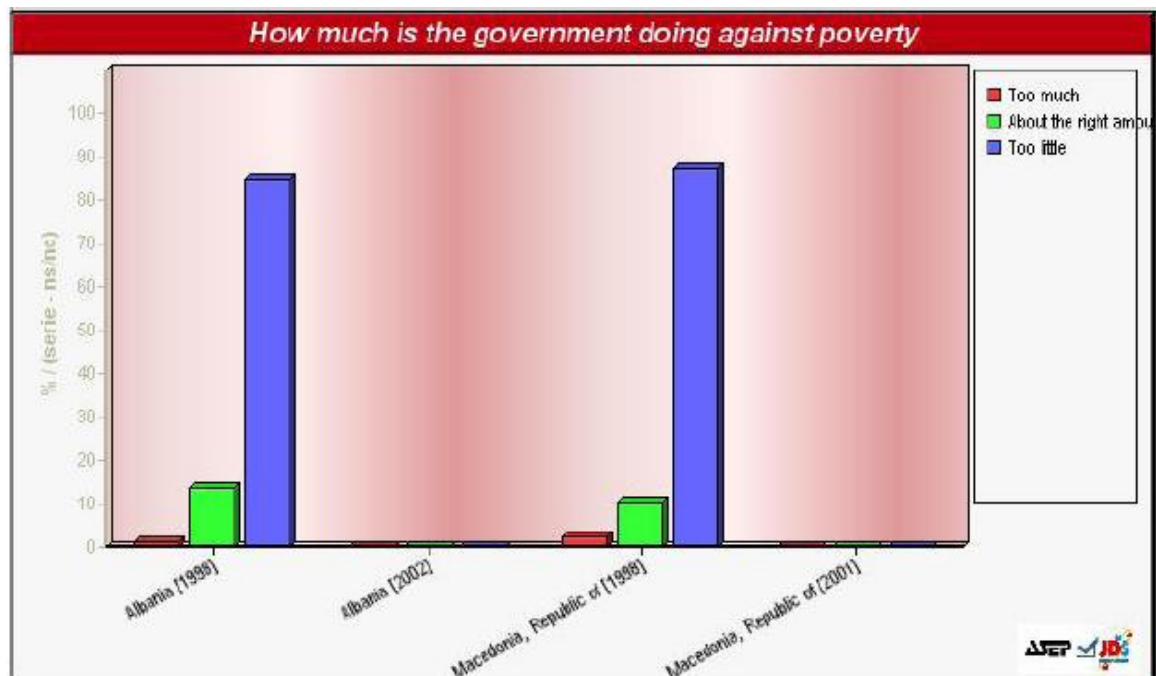
Source: World Values Survey Database - The Values Survey/Los Estudios de Valores, 1981-2004; <http://www.worldvaluessurvey.org>

Figure 4.



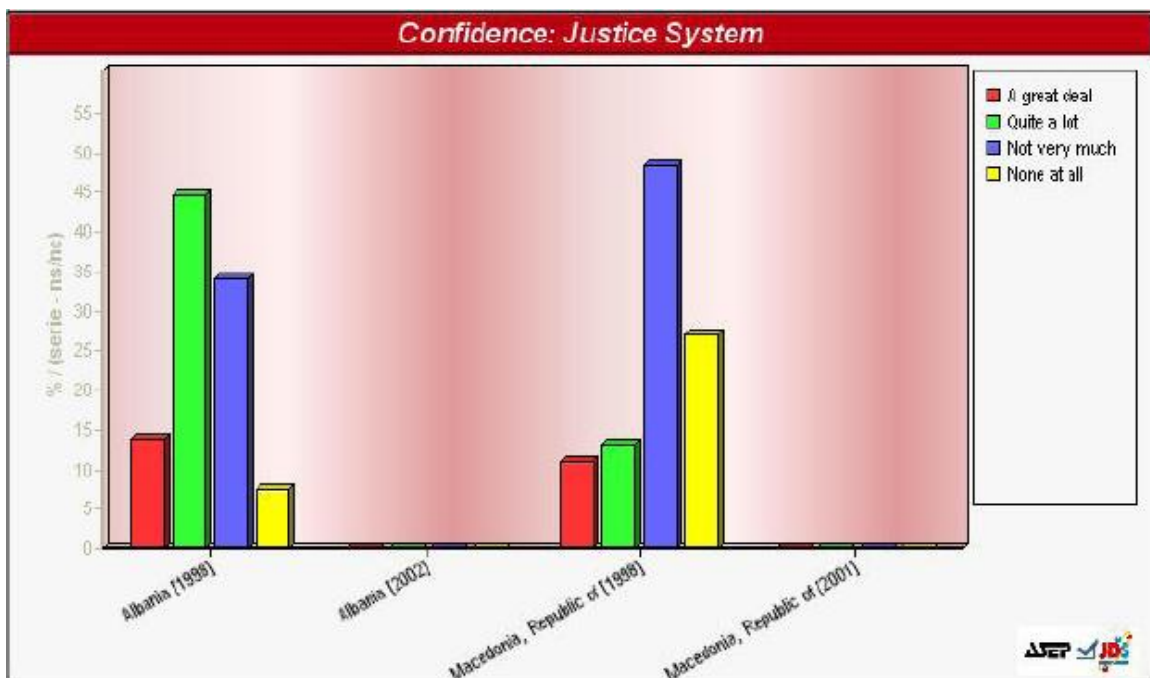
Source: World Values Survey Database - The Values Survey/Los Estudios de Valores, 1981-2004; <http://www.worldvaluessurvey.org>

Figure 5.



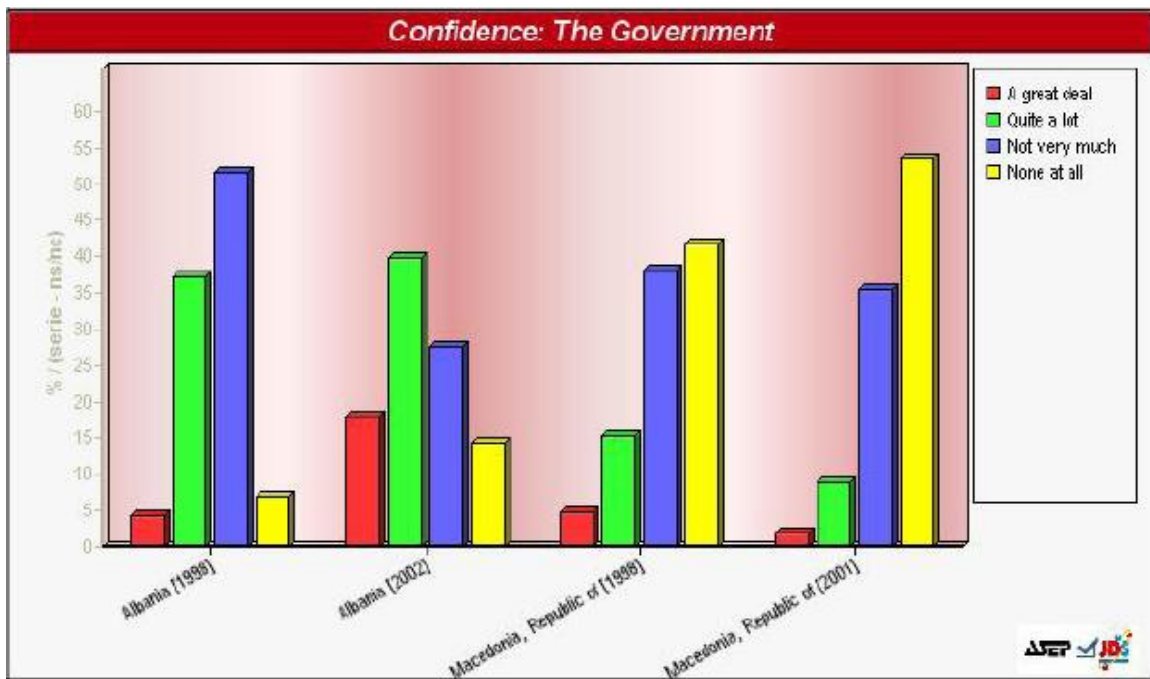
Source: World Values Survey Database - The Values Survey/Los Estudios de Valores, 1981-2004; <http://www.worldvaluessurvey.org>

Figure 6.



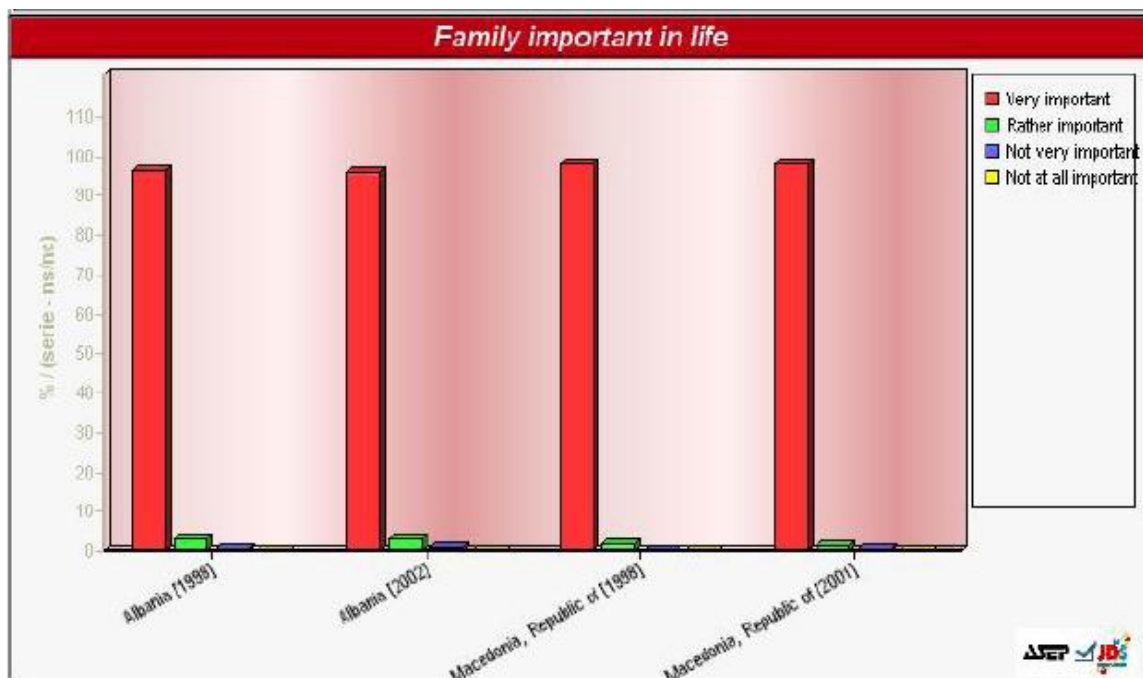
Source: World Values Survey Database - The Values Survey/Los Estudios de Valores, 1981-2004; <http://www.worldvaluessurvey.org>

Figure 7.



Source: World Values Survey Database - The Values Survey/Los Estudios de Valores, 1981-2004; <http://www.worldvaluessurvey.org>

Figure 8.



Source: World Values Survey Database - The Values Survey/Los Estudios de Valores, 1981-2004; <http://www.worldvaluessurvey.org>

Appendix

An interview was conducted with Prof. Dr. Abdylmenaf Bexheti in May 2008. Prof. Bexheti is a Pro-Rector of the South East European University in Tetova, Macedonia and specializes in the subjects of macroeconomics and public finance. He is also a professor in the Business Administration and Public Administration faculties.

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