

## Democracy, Governance, and Corruption after Communism

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A few years after the demise of communism, it was clear that some post-communist countries were soaring ahead, while others were stagnant at best. The discrepancy was truly astounding, and it has continued for years. The differences in economic performance are closely related to the economic reform policies pursued. The more profound and broad the economic reforms, the better the economic performance (see Fig. 1).

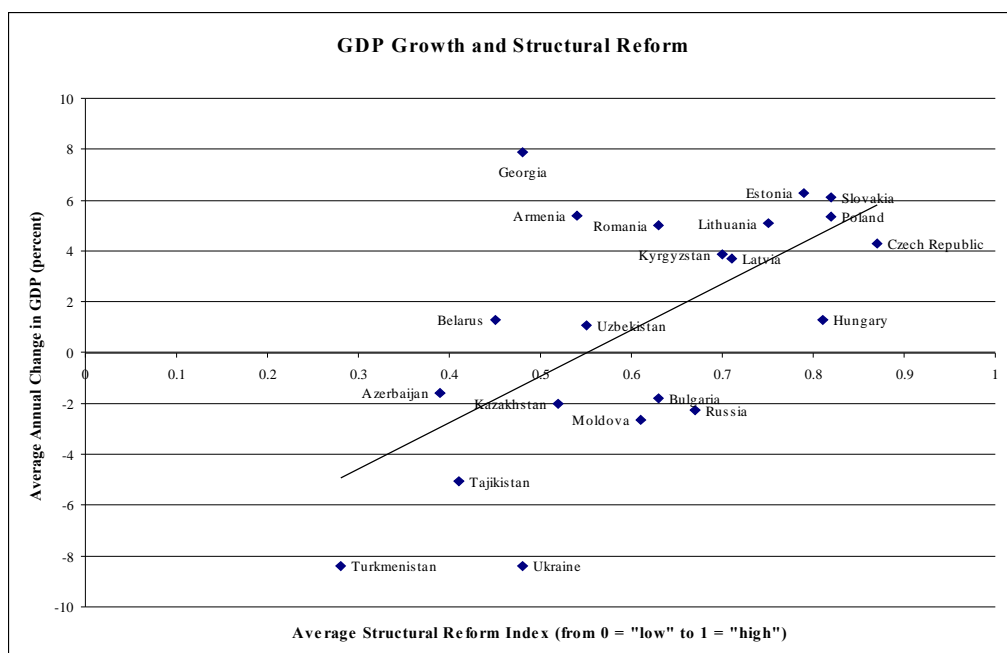


Fig. 1.

The question to be discussed here is why countries in the former Soviet bloc have pursued so remarkably different economic policies. There are some economic reasons, such as the degree of initial economic distortions, the access to export markets, and the availability of international assistance. Yet, the main problems appear to be domestic and political.

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The fundamental political problem of post-communist countries has been that the communist state had been working for a small elite called the Nomenklatura rather than the people. This elite cares only about itself to an extraordinary degree reminiscent of Africa or Latin America. The assignment of transition was to make the state work for the population instead. This task became all the more difficult because at the end of communism, rent seeking skyrocketed all over, as the powerful over-exploited the weakness of economic and political institutions, while society was in disarray. Therefore, post-communist transition required reformers to seize control over rent seeking, which reinforced the economic and political power of the Nomenklatura.

The instruments reformers could use were few, and it was vital to exploit them deftly. Usually, communism ended with a bang, and reformers needed to exploit the shock. In order to do so, the reformers had to possess clear values, which are usually described as neo-liberal. Soon, however, ordinary politics took over, and democracy has proven extremely closely related to successful market reform in the post-communist countries. To become effective, democracy needed institutions, which could appropriately represent the voice of the people. Parliamentary systems have turned out to be far more adequate than presidential rule. The degree of party formations has also been important, and it is determined by the formal rules imposed.

### **The Importance of Shock**

Two broad dangers must be avoided. The worst threat to post-communist transformation is that one rent-seeking group consolidates its hold on power in a dictatorship, continuing a petrified state-controlled system, as it is the most stable state of affairs, and its demise requires another revolution. The lesser danger is the consolidation of a rent-seeking society. In the interim, it might perform worse economically than state despotism, but it has the advantage of being less stable. Rent-seeking societies, such as feudalism, have a tendency to degenerate into liberal market economies and democracies over time, as rent seekers harm one another in competition over rents (Ekelund and Tollison 1981).

This means that a maximum of discontinuity is desirable to take society out of the old state and avoid the costly partially-reformed state. Therefore, a severe shock is needed both at the level of society and individual. One decade of post-communist transformation underscores its importance and its many functions. In chapter three, we have discussed the arguments for and against a speedy and radical reform, but the evidence is worth reviewing.

Shock had a vital psychological function, making everybody change their thinking about economics, as Balcerowicz (1992, 1995) so wisely perceived from the outset. It is striking how many resisted change and for how long. Yet, it is difficult to understand what a market economy is until you live in one. In the former Soviet Union (FSU), the breakthrough in thinking about macroeconomic stabilization came only with the Russian currency collapse of October 1994, which dealt the necessary shock to the Russian establishment to become sincere about stabilization. In late 1994 and early 1995, most former Soviet Republics (FSRs) completed significant IMF agreements.

As the old elite largely benefited from rent seeking, its rule had to be terminated through a democratic revolution to facilitate reform. Democratic break-

throughs have been best consolidated through early parliamentary elections. «An electoral victory of one side may make it more difficult for the opponents to block its program and shelter themselves from the burden of stabilization» (Alesina and Drazen 1991, p. 1183). After an election victory, the parliamentary majority had to act for an early reform rather than seeking compromises with the opponents of reform. «Countries with political institutions that make it relatively more difficult for opposing groups to 'veto' stabilization programs not to their liking will stabilize sooner» (Alesina and Drazen 1991, p. 1183). None of the successful radical rifts was undertaken in consensus, while all have been supported by a parliamentary majority. Those who failed to mobilize a majority (e.g. Romania) or did not utilize it effectively (e.g. Russia) got mired in partial reforms.

Most arguments for shock reforms have been related to macroeconomic stabilization, which offers overwhelming the evidence in favor of shock. All the post-communist countries have long endured relatively high inflation, making clear that no over-shooting existed, while substantial inflationary inertia prevailed. In most countries, budget deficits stayed large for years. Regression analyses have clarified that output did not plummet because of lacking demand, but because of poor output and sales effort, so the problem was supply (Berg et al. 1999). No real growth has occurred until inflation has been brought under control. The worries about sudden mass unemployment because of too radical reforms have not been substantiated, while it has been exceedingly difficult to shake out superfluous workers, indicating that more radical stabilization had been desirable. The inevitable conclusion is that fiscal shock has been insufficient in all these countries, though monetary policy has sometimes been allowed to overcompensate for lax fiscal policies.

Disturbingly, no transition country has reached a West European level of liberalization, as it has proved frightfully difficult to advance from the initial deregulation. The minimal increment underlines how vital the first jump was, and it had been desirable that all countries had started off more radically, including Poland and Estonia.

The most difficult task has been to convince old enterprise managers that the economic system has changed and that they have to change their ways. Even in Poland, this only happened in mid-1991 (Berg and Sachs 1992). Many managers and corrupt officials benefited inordinately from the transitional system and realized that they would never be so well off again. Therefore, it was not enough to make the new system credible, but the old transitional system had to be completely discarded.

To accomplish all these things, the shock had to be severe. Today, it is often forgotten that Poland suffered from two terrifying financial collapses – in 1981 and 1989 – before it opted for a real market economy. The Czech public did not face any real shock, which appears to be one factor behind its later economic problems. Although the Czech maximum package of reforms on January 1, 1991, still appears the perfect systemic change, the Czech population was not compelled to alter their thinking. While the Poles no longer believed in the competence of their state but in their personal skills, the opposite was true of the Czechs in the mid-1990s. Confident that they had been superior in socialist economics, they presumed that they would excel in capitalism as well.

A shock is only useful if an alternative force can emerge reasonably fast. Violence is bad in itself, and it plays into the hands of the few and powerful. The ideal is a sharp peaceful disruption, which draws a clear line between the old and the new system, because the old organizational and administrative capital is of negative

value and the transitional system is ineffective. The worst psychological situation is in the midst of transition, when people realize that the old system no longer functions, but they do not believe that any new system functions either, because then little action makes sense.

If the initial shock was not convincing, if society was not prepared, or if the crisis solution was insufficient, new shocks may unfortunately be likely. One example is the Bulgarian financial crisis in 1996–1997, which led to a regime change and a truly radical economic reform. Another example is Russia's financial crash of August 1998, which dealt a second severe shock to the country, speeding up its transformation. These crises both reduced the wealth of the rent seekers and demonstrated the necessity of more profound market reforms to the public. By weakening the rent seekers both economically and politically, these crises made more radical market economic reforms possible, «distortions and crises may raise welfare if they are the only way to induce necessary policy changes.» Thus, «from a dynamic perspective, crises and emergencies may be welfare-improving and hence desirable» (Drazen and Grilli 1993, p. 598). These words may sound hard, because ordinary people also suffer from such crises, but after one decade of transition the choice appears to stand between Ukraine's steady decline or Poland's sustained growth. Vital statistics also indicate that corruption and rent seeking are worse than shocks, provoking to real market reform.

The social costs of gradual and partial reforms fall into two categories. The first effect is lost growth because of a long period of transition. Since it is quantitative, it dominates the discussion, but the second qualitative effect is potentially much more harmful, namely the corruption of the state.

### The Value of Ideology

To stand up against the entrenched elite, reformers needed sound values, including both ideology and nationalism. Post-communist transformation was an intensely ideological process, as evident from the excited initial debate, though this was concealed by anti-political slogans such as «no more experiments,» but this apparent animus against politics was directed against communism, which represented the universal politicization.

Virtually all the leading economic reformers – Leszek Balcerowicz (1992), Vaclav Klaus (1992, 1994), Mart Laar, Siim Kallas, Einarš Repše, Yegor Gaidar (2000), Anatoly Chubais and Askar Akaev (2000) – were committed neo-liberals, with favorite books such as Friedrich Hayek's *The Road to Serfdom* [1944] and *The Constitution of Liberty* (1960), as they were no sheer technocrats but wanted an alternative vision of a more humane society. The transformation was not only about economic efficiency and welfare, but about freedom and human dignity. Vaclav Klaus (1992, 1994) most clearly formulated these ideas.

Because of their commitment to certain ideals, reformers could not promiscuously engage rent seekers and the left in horse trading, in which many Western political scientists and local cynics see the essence of politics. The prime purpose of the reformers was not to win elections but to win the public debate, re-establishing the norms of Western civilization in these morally-degenerate communist states (Dąbrowski, Gomulka, and Rostowski 2000).

The point is often made that Central Europeans, notably neo-liberal Vaclav Klaus, tended to be more social democratic than liberal in their political practices, es-

pecially accepting high taxes and high public expenditures. At some stage compromise becomes inevitable in politics, but because of their strong ideological commitment these reformers had provided their societies with a strong sense of direction.

The importance of ideology becomes is best illustrated by a society with no sense of ideology, such as Belarus. Then, society has no clear purpose. All that is left is interests in a society dominated by a small elite, rendering dictatorship and the prevalence of rent seeking the natural outcomes in line with Ivan Karamazov's thesis in Fyodor Dostoyevsky's *The Brothers Karamazov*: «If there is no God, everything is permitted».

Successful reformers have also nurtured a strong national commitment, often seeing the rebirth of their nation as their purpose. This was particularly apparent in the Baltics, but it was also true of Central Europe or Armenia. The partial reformers, on the contrary, tended to have little national purpose, and non-reforming Belarus least of all.

While most people in the region are intensely aware of the impact of ideology and nationalism, Western social scientists tend to discard them as paraphernalia and rhetoric. Part of this discarding of the importance of values derives from the extreme nihilism and cynicism of the old Soviet elite, who considered any belief or conviction naïve. Part of this tendency derives from Western political scientists reducing politics to horse-trading.

### **Democracy or Dictatorship?**

The fundamental question is for whom the state is working. There are two sharply contrasting views. One sees the state as good and the people unable to understand their real interests, which easily becomes a justification for enlightened despotism. The other camp worries that the state is being exploited by an elite for its own purposes, and it wants the elite to be held accountable, for which democracy is the most obvious means.

Many people, especially West European social democrats, presume that the state is good, working in the best interests of the people. Not long ago, social democrats, such as the Nobel Prize winner Gunnar Myrdal (1968), advocated dictatorship in third world countries to speed up their economic and social development. His argument ran: «The experience of the countries in central, eastern, and southern Europe after the First World War suggest that when a democratic form of government is imposed on an economically and politically immature nation it rapidly succumbs to authoritarian pressures and does so for internal reasons» (p. 774). As an enlightened social engineer, Myrdal put his ideals of modernization over democracy, with no consideration of participation. «Yet it may be doubted whether this ideal of political democracy – with political power based on free elections and with freedom of assembly, press, and other civil liberties – should be given weight in formulating the modernization ideals» (p. 65). «An authoritarian regime may be better equipped to enforce a social discipline, though its existence is no guarantee of this accomplishment» (p. 67).

The idea that democracy was the preserve of the West and countries of high economic development was deeply imbedded in modernization theory, whose leading representative is Samuel Huntington (1991). As late as 1992, he argued that «authoritarian governments are better positioned than democratic governments to promote

economic liberalization» (Huntington 1992-93, p. 12). As transition started, many argued that the preconditions for democracy had to be built first. A premature move to democracy could hinder growth by increasing the influence of special interest groups and fostering political instability (Isham et al. 1997).

In a contrary vein, many political scientists have long reckoned that democracy and a market economy naturally belong together, but this positive correlation has been tenuous (Lindblom 1977). As Larry Diamond (1995, p. 108) has put it: «There are powerful logical, theoretical, historical, and empirical reasons to expect a close association between capitalism and democracy, with a logical relationship flowing almost inescapably from the very definitions of these terms. Capitalism is an economic system based on private ownership of the means of production and the determination of prices and rewards through competition between private producers... Democracy is a political system based on the autonomy and freedom of individual citizens, and the determination of public power and policies through competition between groups of citizens, based in parties and interest groups. Economic freedom and political freedom thus would appear, at a minimum, to be natural companions, even if one does not strictly require the other».

Recently, this idea has been subjected to regression analyses. In one large cross-country regression for the whole world, Robert Barro (1996) established a universal positive correlation between democracy and growth. However, he argues that when the effects of the rule of law, free markets, small government consumption and high human capital are set aside as well as the initial level of GDP, the overall effect of democracy on growth is weakly negative, but those effects are typical consequences of democracy. No free markets and no rule of law exist in post-communist dictatorships.

The reputation of democracy had greatly enhanced in the late 1980s after the economic reforms in Latin America, which had usually been preceded by democratization. «Only in Asia does authoritarianism appear conducive to economic liberalization» (Geddes 1994a, p. 107). In reality, most dictators reveal limited compassion for their people, while caring more for the fortunes of their families and friends. After all, the many dictatorships in Africa have not been known for socially-inclined policies. Barbara Geddes (1994a, p. 113) has summed up the new democratic insights: «In many countries the biggest, and certainly the most articulate and politically influential, losers from the transition to a more market-oriented economy are government officials, ruling-party cadres, cronies of rulers, and the close allies of all three. These are groups whose ability to make effective demands does not decline as regimes become less democratic, which explains why many authoritarian governments have had difficulty liberalization their economies».

Larry Diamond (1995, p. 131) has followed this case up for the post-communist countries, arguing for the early adoption of a new constitution and the consecutive holding of parliamentary elections: «the state in these last decades of communist rule had ceased to represent *any* common national interest, and its collapse left nothing but powerful congeries of rent seekers, utterly contemptuous of law, with the skills and ruthlessness to accumulate enormous wealth, rapidly and illegitimately. Permitting them to do so risks discrediting the entire new order».

### **Democracy: The Best Check on the Elite**

In the former communist countries, the correlation between democracy and successful economic reform is particularly strong (see Fig. 1). Several factors are likely to

explain this strong correlation. First, the communist state was far more dominant over economy and society than anywhere else in the world. Second, its elite was both narrow and tightly knit. Third, the few checks and balances of communism faded with its demise, leaving the powerful without constraints. Fourth, the opportunities to rent seeking were fabulous due to extraordinary economic distortions.

By contrast, in East Asia the public share of GDP is tiny – in the order of 15–25 percent of GDP, compared with 40–50 percent of GDP in the communist countries. Significant economic distortions are absent, and civil institutions are strong and functioning autonomously (Pei 1994).

Thus, the central task for the economic success of transition was to control the old elite, for which democracy appears an ideal instrument. De Melo et al. (1997) found a strong correlation between political freedom and economic liberalization (see Chart 2). The democracies in the region have either opted for radical or gradual reform, while the dictatorships have opted for little or no market reform<sup>1</sup>. As it should, the competitive political system had acted as a check on corruption, and the opposite of corruption was radical reform (cf Rose-Ackerman 1999, p. 127).

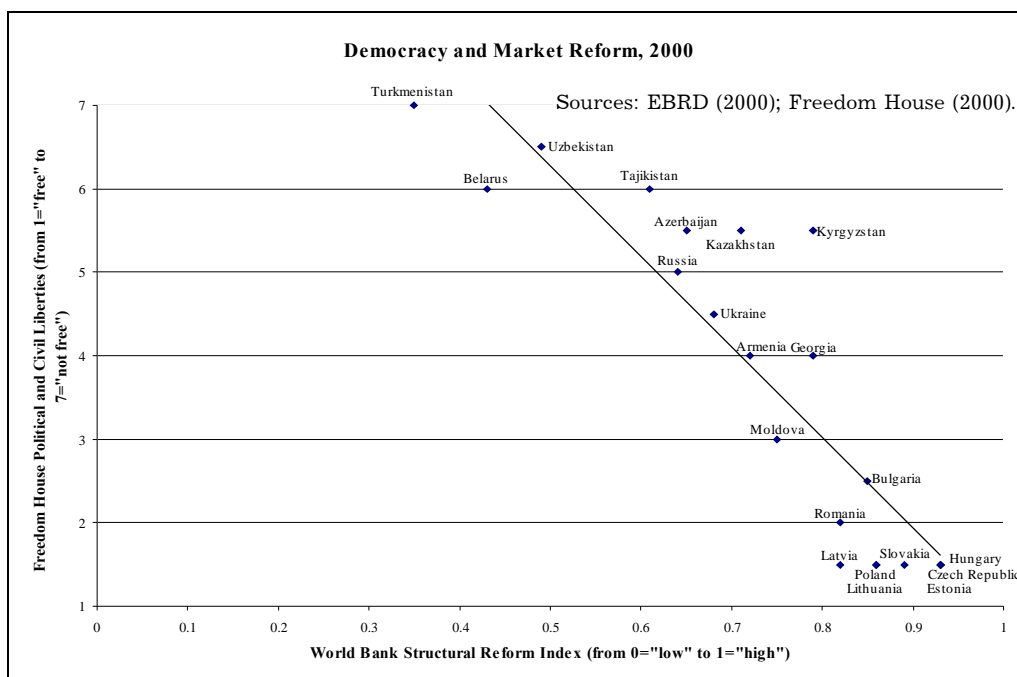


Fig. 2.

The dividing line between different models of transformation was what interest would dominate policy. One alternative was a small group of vested interests, to whom rent seeking was key, while growth of the national economy was not essential. The other alternative was a group sufficiently broad to represent the public interest and thus be concerned about economic growth.

<sup>1</sup> Valerie Bunce (1999) has elaborated on the logic of these correlations.

This contrasts starkly with the social democratic school of political economy for the post-communist countries, spearheaded by Adam Przeworski (1991), which we discussed in chapter three. Like Myrdal and Huntington, Przeworski saw a choice between democracy and radical economic transformation, while he saw radical reform as a threat to democracy, but all these arguments have been disproved. First, radical reform has not caused a greater but a smaller fall in output than gradual reform. Second, people have not risen against reform or endangered democracy because of steep falls in recorded output, as long as their governments have appeared serious about reform. Third, the threat against democracy has not come from the people but from the elite. Furthermore, that people would be so preoccupied with short-term economic results that they would jeopardize democracy for any shortfall runs against any consideration of expectations.

Jon Elster, Claus Offe and Ulrich Preuss (1998, p. 272) summarized two kinds of vicious circles they had anticipated. Either «the unrestrained use of democratic freedoms would undermine any national program of economic recovery because the citizens would use their newly acquired voting power to remove out of office every government that dared to impose on them economic and social hardships...» Or «the unrestrained use of state power to impose economic reform of the ‘shock therapy’ kind on society irrespective of the social costs would necessarily provoke active or passive resistance of society against the reform and at the same time cause a considerable number of people to live in poverty and even misery». But they conclude that «fortunately neither of these hypotheses has come true in their extremely pessimistic versions».

The «Pinochet school» has argued that a temporary dictatorship is needed to introduce a market economy, but that view has been equally rejected. The opposition against reforms did not arise from the people but the elite, which could be best controlled by democracy, while they would easily manipulate not dictatorship (cf Maravall 1994). If dictatorship had been beneficial to market economic reforms, Africa would be the leading light in the world economy. Not surprisingly, the Pinochet argument has been more popular among old communists, such as Silviu Brucan (1992) and the Russian industrialists, than among actual supporters of a liberal market economy. Yet, some Russian liberals do call for a Russian Pinochet (Aven 2000).

### **Government Stability and Coalitions**

A standard view is that political stability, meaning a stable government, is vital for the success of reform, but post-communist economic transformation suggests the opposite. However, contrary to common belief, government stability has not been an advantage. The five countries with the most frequent changes of governments are Poland, the three Baltic states and Bulgaria, that is, four of the most successful reform countries. Their governments have only lasted a year on average (EBRD 1999, p. 112). A plausible explanation is that more frequent changes in the executive means that vested interests cannot control the government, which thus becomes more transparent, more accountable, less corrupt and better corresponds to the public interest. Bulgaria illustrates the opposite danger of patently inconsistent policies and erratic policy reversals, but so far vested interests have been a far greater threat to sound economic policies in transition than disorder. After all, the Central Asian dictatorships have had the most stable governments – Kazakhstan, Tajikistan,



Turkmenistan and Uzbekistan. If the elite is to be checked by the population, it must not be given respite, and the common view that political stability is good for economic reform is contradicted by the evidence. This also suggests that the post-communist countries are intrinsically amazingly stable, so that the problem is far less to maintain stability than to accomplish sufficient change.

Many instinctively think that the best government arises, if one party wins its own parliamentary majority. However, coalition governments have been more successful than one-party governments in the transition, and the most successful reform governments have been broad-based, multi-party coalitions (EBRD 1999, p. 104). Good examples are multiple Polish, Estonian, Latvian and Czech governments. In fact, this is logical, if the main threat is that the old establishment will corrupt the new government. A coalition government can be seen as another measure of political competition, transparency and accountability. With several parties in the government, it has been difficult for any single group to capture the state to its benefit, and the competition among parties does not stop when they enter government. Each party will fend for its own long-term reputation, and any coalition partner objects to another partner, ripping the country off through embezzlement. Transparency is also enhanced, because being in government, each party sees and understands what is going on. A coalition partner has the advantage of being strong and independent enough to act. Naturally, there is a risk that a corrupt deal will be struck, but such deals are unstable and can easily be challenged. Maximum public dispute will also check the self-seeking elite, as it is a reflection of sound elite competition.

Again, we see that the essence of the transition is that government is subject to transparency and checks and balances. Political instability and coalition building are indicators of a truly competitive political system. Countries with the most competitive political systems have tended to achieve greater progress in economic reform. Democratic systems can constrain the capacity of narrow elite groups that exercise undue influence on government. Moreover, to function well, democracy requires transparency in public institutions (EBRD 1999, p. 112–3). Conversely the fear of political disorder has been greatly exaggerated. This runs against Joseph Stiglitz' (1999) not very democratic aspiration for the maintenance of the old «administrative capital», which presumably means the Communist Party, the old communist state and the KGB.

### **Parliamentary System or Presidential Rule**

The fundamental problem of the communist states was that they were not full-fledged states in their own right. The state apparatus had existed and it was formally a self-contained mechanism as any Western state, but in reality it was only a subordinate appendix to the real state, the Communist Party, which was not legally included in the state until the late 1970s, when most communist countries adopted constitutions which just mentioned the leading role of the Communist Party. The Communist Party stood above the law, being allowed to intervene however it found convenient, and it was never accountable.

The former communist countries were left with a contradictory constitutional inheritance, with both their communist practice and their written constitutions never meant to be applied. Now these bogus constitutions assumed a life of their own, while most countries also tried to draw on pre-communist national history. To a

surprising extent, constitutions and politics were seen as national prerogatives, for which international experience was not very relevant. Therefore, the impact of Western models was much more limited than in the economic sphere, albeit Western advice played a greater role in the western part of the region.

The main conflict concerned the division of power between the President, the Council of Ministers and Parliament. While the struggle between the President and Parliament have been the most dramatic, the government often played an important role in policy making. These strifes were further aggravated because the principle of the division of power, which had prevailed in the rest of the world since the late 18<sup>th</sup> century thanks to Montesquieu [1748], had never been accepted by the communists, since it circumscribed the complete power of the Communist Party, and the public understanding of the benefit of such a principle was strangely absent. Nor did any independent judiciary exist. In the old Soviet-type legal system, the prosecutor was superior to the judge, and defense counsels were rarely welcome. These conflicts were the worst in the Commonwealth of Independent States (CIS), with some democracy – Belarus, Ukraine, Moldova, Russia, Kazakhstan, Kyrgyzstan, Georgia and Armenia, while the European Union accession countries tended to adopt European standards gradually.

The communist institutions did not just go away. Under communism, the Politburo and the Central Committee of the Communist Party had been supreme. Now their place was now taken over by the President and his Administration, and at the regional level by the governor and his administration. By communist tradition, the presidential and gubernatorial administrations could interfere anywhere at will without accountability. They also took over most of the valuable real estate of the Central Committee of the Communist Party, and these assets were not subject to any financial control. The Presidential administrations were quite large – at one stage 6000 people in Russia and 1000 people in Ukraine<sup>2)</sup>. These large central bureaucracies became rampant centers of corruption because of their large assets, great rights of intervention and absence of accountability.

The Soviet Parliament was a rubberstamp institution that convened twice a year and adopted one or two laws each time. Yet, according to the Soviet Constitution of 1977, however, Parliament was powerful and sovereign. After communism, parliaments in the western part of the region assumed the roles of their West European counterparts, but further to the east ideas of peculiar national models held sway. Post-Soviet parliamentarians demanded substantial executive powers, notably in fiscal and monetary matters as well as privatization. The problems of the post-Soviet parliaments were aggravated by the lack of party structure and the not-fully democratic parliamentary elections in early 1990.

As each deputy was on his own and completely unregulated, they could charge for their services without fear of legal prosecution, leading to great corruption of parliaments. In the Russian parliament, purchase of individual deputies was commonplace until the party elections of December 1993. Since then, wholesale purchases of whole parties have become frequent in major votes. As Ukraine does not have a strong party system, retail purchases of deputies' votes persist<sup>3)</sup>. The very corrupt parliaments in the FSU are a serious concern, but the gradual formation of

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<sup>2)</sup> Personal information from working with these governments.

<sup>3)</sup> Personal observations from work with the governments in both countries.

real political parties is one important means of reducing their corruption of parliamentarians. A political party is far more concerned about its reputation than are individual deputies, and this desire for strong political parties is a strong argument for proportional elections.

Initially, the presidency was relatively strong in most countries to offer firm leadership. Poland was an exception, since the illegitimate Communist President Wojciech Jaruzelski stayed on, and Hungary which opted for a parliamentary system from the beginning. The Czech Republic, Slovakia, Bulgaria and the Baltic Republics have had ambiguous constitutions, but their Presidents have increasingly developed into elderly statesmen rather than leading executives. In all these countries, the inspiration from Western Europe was strong. Legislation became the concern of Parliament, and the government was responsible to Parliament, while the President focused on constitutional and international issues.

In the FSU, presidential powers have persistently been much stronger, but parliaments have challenged them, leading to virulent conflicts. The most dramatic one occurred in Russia in September–October 1993, ending with the President dissolving the pre-democratic and highly unrepresentative Parliament, which responded by organizing an armed uprising. The governance problems were even worse in Ukraine, and they have persisted for longer. In Ukraine, the government was often a full-fledged party in a tripartite strife with President and Parliament. Presidents responded to irresponsible parliaments by demanding greater power, but the parliaments refused, pointing to the corruption of the government. Similar conflicts of lesser severity have occurred in Moldova, Kazakhstan and Kyrgyzstan.

Over time, some clarity has been established. In general, the greater the continuity and the less democratic a country has been, the stronger the presidential powers. But a continuous improvement in certain procedures is notable. Previously, ministerial officials wrote decrees on the basis of oral orders passed down from the Party. Now they are getting used to the idea of a rule of law. Increasingly, they draft laws that are to be discussed, amended and promulgated by Parliament. As the practice of issuing many decrees continued, this change occurred only gradually.

The Russian Parliament no longer tries to intervene in executive matters, and since 1996 the President and the government have reduced their number of decrees and instead tried to promote laws adopted by Parliament, as presidential decrees have not very effective, credible or well drafted. They can easily be issued, withdrawn and contradicted by other decrees or overturned by courts, while the time-consuming adoption of a law requires the commitment from a substantial number of people (Remington et al. 1998). In Kazakhstan, which is mildly authoritarian, the President has greater power, issuing many principal laws are presidential decrees with the power of law, but these seemingly good laws are surprisingly ineffective. An attempt in early 1999 to shift many of the ordinary duties of government to the Presidential Administration – even the state budget – ended with the President transferring these tasks, and his most trusted collaborators, to the government.

The broader implication is that a successful reform requires the support of an elected executive, because a couple of hundreds of laws have to be promulgated, and decent laws can only be adopted by a Parliament with a reformist majority<sup>4</sup>). Therefore, the greatest shortcoming of the Russian reform efforts appears to have

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<sup>4</sup>) I owe this point to Alexander Boshkov.

been that the reformers did not secure a parliamentary majority until December 1999, and their victory in presidential elections in June 1991 and June 1996, as well as in a referendum in April 1993, did not suffice.

A number of key principles need to govern the constitutional distribution of powers. First, there must be a clear division of executive and legislative powers. By and large, the democracies in the region have accomplished this, but at a rather high cost, since they did so through trial and error rather than through principled consideration. A second principle is that there must be some transparency and accountability, which is a strong argument for parliamentarianism, because a Parliament can supervise a government relatively closely, while presidents and their administrations are patently non-transparent and unaccountable. A third principle is that law should rule society, which means that Parliament must be given substantial legislative powers, while those of the government and the President should be minimized. Considering the moral weakness of government, discretionary government decrees are more often than not intent on favoring a specific lobby. Under the existing conditions, parliamentary rule is much preferable to presidential rule in the whole region, and the purported need for a strong president is only a variety of the myth of the need for a dictator, because a strong state is an accountable state.

### **Rules Strengthening Political Parties**

The essence of democracy is to build institutions, effectively representing the public interest, and elections are the main vehicle in this construction. As with the economic transformation, the timely execution of political institution building is vital, and timely usually means early. A few seemingly technical aspects of the first elections have been essential for the political development of each country.

A first issue was to build political parties, which could serve as barriers against corruption. A party is more broad-based than an individual deputy, which makes it inclined to represent a broader public interest. It needs to have some kind of line, and it cannot be changed too often and too much, if a party is to be credible. Moreover, the existence of a party formalizes procedures for contacts with outsiders and decision-making. An individual is not facing large funders alone. All these factors mean that parties render it easier for deputies to resist corrupt proposals. The parties' formation depended greatly on what role they played in the first founding elections, or whether they were even permitted, and if the electoral system encouraged them (McFaul 1997).

Central and South-East Europe launched ordinary party elections from the outset, but all the initial elections in the Soviet Union in 1989 and 1990 precluded any formal role for political parties, which rendered them merely partially democratic. As a consequence, the electorates and the ensuing parliamentary factions were neither structured nor disciplined, and the deputies were accidental figures who were accountable to nobody. The only exceptions were the Baltic states, Georgia and Armenia, where the popular fronts had grown so strong that they became real political parties despite the electoral system. Ukraine is an unfortunate case where parties were proscribed even in the second parliamentary elections in 1994. The result was free-wheeling corruption of individual deputies and an unruly parliament. One consequence was that about one-third of the Ukrainian deputies elected in both 1994 and 1998 were active businessmen. Their purpose was not to facilitate deregulation.

lation, but on the contrary to extract their share of the rents, partly by sponsoring legislation benefiting their enterprises, partly by selling their legislative initiative to other businessmen<sup>5)</sup>.

Another important election rule was whether parliaments were based on proportional representation or on majority election in single-mandate constituencies. The East-Central Europeans and Balts opted for proportional elections, while the CIS countries have mixed systems. Some had proportional representation (Armenia and Georgia); some single-mandate constituencies (Belarus, Ukraine and Kyrgyzstan); and Russia has a combination of both. In the countries with proportional representation, a steady party system evolved rather soon, and those are the strongest democracies in the region (Kitschelt et al. 1999). As elsewhere in the world, proportional representation facilitated the formation of strong parties and thus reform efforts (Geddes 1994b). Ironically, the challenge from the Communist Party often forced the others to get organized and thus improve the efficacy of their democracy.

A third election rule with great impact was whether any threshold for proportional representation existed, usually four or five percent of the votes cast. Some countries introduced such a hurdle from the beginning, and they obtained neatly structured parliaments with up to six parties from the outset. This was true of East Germany, Hungary, the Czech Republic, Slovakia, Bulgaria, Romania, Estonia and Lithuania. The exceptions were Poland and Russia. Poland had a huge number of parties represented in its first freely-elected *Sejm* – no less than 28, and Russia had a large number of independents from the 50 percent of deputies elected in single-mandate constituencies. Initially, a large share of the votes cast resulted in no representation because of the large number of parties. Georgia took the prize in its October 1992 parliamentary elections, as over two-thirds of the votes were cast for small parties that were not being represented. Soon, however, people learned and opted increasingly for parties that were actually represented (McFaul 2000).

A fourth factor of great importance for the future party structure was the timing of the first founding parliamentary elections (McFaul 1999). The population was most enthusiastic for the economic transformation just after its launch, focusing on the vision rather than its costs. The later the first post-democratization elections were held, the worse the result for reformers. Countries that had mobilized to overthrow communist rule tended to unit around one broad popular movement. If elections were held within less than a year, these movements could be transformed into large democratic parties, while any delay caused divisions. Successful early elections took place in East Germany, Hungary and the Czech Republic. Poland and Russia, on the contrary, held their first parliamentary elections very late, almost two years after they had attempted radical economic reform programs. They resulted in a complete fragmentation of the popular movement for democratization and serious backlashes against reform. In Poland, Solidarity was broken up into a score of parties, and in Russia the once impressive popular movement Democratic Russia dwindled into insignificance. Latvia held its founding parliamentary elections almost two years after independence and saw its popular front fractured and demolished.

National peculiarities do matter. None of the post-communist countries has a party structure that resembles that of any other post-communist country, showing that they are more original than West Europeans (Kitschelt et al. 1999). Still, the im-

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<sup>5)</sup> Personal conversations with Ukrainian businessmen-deputies over the years.

pect of party elections, proportional representation, hurdles for representation and timing of a founding election have been as effective as any political scientist would have predicted (McFaul 1997).

### **A Strong Civil Society: Preferable to Consensus**

The relative success and failure of various countries is often taken as granted in hindsight because the true historical perspective is so often forgotten. The level of the public debate, the vibrancy of the media and the degree of competition within the elite were important factors in deciding the nature and speed of early market reform and its tenacity.

A common idea is that a social consensus is necessary for a successful reform. Poland is frequently used as an example, but Poland experienced acrimonious public strife and the worst party fragmentation. Admittedly, it benefited from a big anti-communist majority, but the broader point is that Poland had the most vibrant civil society and the most vicious elite competition. Intense party competition also helped to expose and combat high-level corruption.

By contrast, despite of an excellent start of its reforms, the Czech Republic has suffered from insufficient elite competition. Among the three east Slavic states, Russia, Ukraine and Belarus, Russia adopted the most radical market economic reforms, and an important reason was its intense elite competition. Belarus went through the least reform and had the least elite competition, and Ukraine fell short of Russian in both regards. Thus, reform appears closely related to civil society and elite competition.

Over time, the importance of civil society has become ever more apparent for the success of market economic reform, as public competition leads to better governance and thus enhances the quality of reform. The civil society that had developed just before the end of communism seems to have been particularly important for the eventual success of reform, putting Poland, Hungary and the three Baltic states at a special advantage. Today, it seems to obvious that these states would excel in both democratic and market economic transformation that it might be worthwhile to recall how public perceptions of Poland and the Czech Republic have changed.

All this suggests that civil society, including media and elite competition, are of vital importance for the success of both democracy and a market economy. It appears as if what happened long ago might be less important than what happened in the last couple of years before the end of communism. Clearly, Estonia had a civil society much more prepared for reform than the Czech Republic, although the Czech pre-war state of affairs was much more impressive than that in Estonia. This contrasts to Robert Putnam's (1993) attempt to explain later Italian developments with differences in social capital in the early middle ages. These results are easily reconciled. The explanation is that this region saw so much greater and diverse disruptions in recent years than Italy did in seven centuries. Therefore, recent experiences overtook prior states of affairs. Furthermore, in the Italian south unfortunate conditions were perpetuated by flawed institutions.

### **Conclusion: Check the Elite**

The lesson is easy and clear. The problem of postcommunist transition was not a lack of stability, but too much stability, encapsulated in a strong old elite that

benefits from rent seeking from economic distortions in a slow transition. The task of transition is to challenge and shake up this old elite. One or a couple of major shocks have typically preceded successful post-communist transformation. The reformers who emerge need a clear ideology to guide them. The best check on an elite is a well-functioning democracy, so the better a democracy the better economic reform. In order to keep the elite in check, government instability is preferable to stability, and coalitions are better than one-party majority rule. Parliamentary systems are more effective than presidential systems, as parliaments can scrutinize a government more effectively. Political parties, however, need to be reasonably coherent and structured to be able to demand accountability from the rulers. Also a civil society in all its expressions renders control over the ruling elite more effective.

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