Different paths of the second transition in the post-Soviet world: a political-economic analysis

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DIFFERENT PATHS OF THE SECOND TRANSITION IN THE POST-SOVIET WORLD: A POLITICAL-ECONOMIC ANALYSIS

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Abstract: The first generation of economic reforms in the post-Soviet countries mostly resulted in formation of sustainable inefficient institutional equilibria, what may be described as the transition from “plan” to “clan”. Therefore the problem of the “second transition” from “clan” to “market” becomes especially important, turning in the centre of the transition studies. In the last years many post-Soviet states initiated the second wave of reforms, including restructuring of the banking system, of the housing and communal services and of natural monopolies, enhancing competition on markets for goods and services, as well as further reforms in the public sector. The paper aims to explain the perspectives of the “second transition” from a political-economic point of view, which considers the process of reforms as result of the interaction of different political and economic actors formed in turn of the “first transition”. The paper discusses the triggers of the second transition, choice of different scenarios of transition and its major threats.

1. SCOPE AND AIMS OF THE SECOND TRANSITION

The major objective of the post-Socialist and post-Soviet economic transition studies has been to find out the way, how countries and societies move from the plan economy to a free market economy, and why some countries are more successful, than the rest (Müller and Pickel, 2001). Economic and political transition has been considered a kind of “institutional interregnum” between two stable institutional equilibria (Brockheimer, 1997). Significant differences in the results and processes of economic transition in the Central and Eastern Europe (CEE) and in the post-Soviet space excluding three Baltic countries have been evident from a relatively early stage of transition process. They have often been discussed in terms of different speed and success of reforms, which still move in the same direction. Currently it is possible to argue, that there is a more fundamental difference between the CEE and the former Soviet Union (FSU): the latter achieved an institutional equilibrium, however, a different one, than expected by the transition theory. Transition “from plan to market” turned to be a transformation from “from plan to clan” (Stark and Bruszt, 1998) or to a kind of “steady state transition economy” (Kapelyushnikov, 2001a and 2001b) with new stable institutional system. Unlike similar distortions in the CEE transition process, in the FSU the new situation appeared to be relatively stable.

From this point of view an important point for the transition studies should be the discussion of what may be called a “second transition”: restructuring of the national economies from clan to market, which started in several post-Soviet countries in late 90s. Andreff (2004, p.2) notices, that in the less successful transition countries “a second transition is … urgently needed, based on those measures likely to reduce ‘etatism’, cronyism, and rent-seeking and to strengthen market institutions, i.e. a second stage focused on institution building”. In many cases this stage of reforms is associated with changes of political elite (the
“third generation reforms” as described by Perlman and Gleason, 2005), but the old incumbents also could implement it. Since the first transition created the formal basis for market economy (property rights and economic decentralization), the second transition is to correct the distortions preventing the proper functioning of the system, and focuses on governance reforms: state governance (administrative reforms, reduction of corruption, reforms of courts and taxation), corporate governance (including implementation of international accounting standards) and governance of markets (competition policy). The main objective of reforms is furthermore to create a more competitive economy and reduce the power positions of largest business groups, as well as to improve the quality of legal framework of economic activity and its implementation.

Indeed, in the late 1990s – 2000s several post-Soviet countries started with a new wave of economic institutional reforms. Generally speaking, two main patterns of the “second transition” could be identified. In some countries, like Russia and Kazakhstan, the transformation took place in presence of preservation and even consolidation of the semi-authoritarian political system. In Russia the first term of the new presidency “abandoned many precepts once deemed inviolable” (Sutela, 2005, p.10): approval of private land ownership, fundamental revision of tax system, reform of bankruptcy law and significant advancements in the reforms of courts. The Putin’s second term reforms included an attempt of administrative reform, pension reform, introduction of IFRS in the banking sector and abolition of currency restrictions. In a similar way, Kazakhstan since late 90s implemented a series of liberal economic reforms, including transformation of power utilities sector, housing and communal sector, pension reform, banking reform and amnesty of capital and managed to replace Kyrgyz Republic as the leader of liberalization of economic policy and progress towards market economy in the CIS. This approach is going to be referred to as “semi-authoritarian” second transition.

Georgia and Ukraine could be considered as examples of the second scenario, which started with political transformation of the semi-authoritarian regime in turn of “colour revolutions”. In these countries systematic economic reforms followed a quick political transition, and focused mostly on changes in state governance: radical restructuring of administration and fight against corruption. Both countries attempted to implement a quick restructuring of the old bureaucracy to increase it efficiency. In several cases governments decided to establish completely new agencies instead of reforming the old ones. Moreover, new governments focused on disempowerment of business groups. In Ukraine the major issue of the year 2005 was the de-privatisation of “oligarchic” assets. Actually, only few privatisation deals of the Kuchma’s period were really revised by the new government. However, the re-privatisation of Kryvorozhstal’ seemed to be an exemplarily case of transparent and open privatisation in the FSU (Inozemtsev, 2005). In Georgia wealthy businessmen were arrested and forced to contribute “voluntary” to the budget and off-budget funds. I am going to refer to this path as “post-revolutionary” second transition.

The results of both strategies of reforms are currently ambiguous. In Russia and in Kazakhstan since 2004-2005 governments started a consequent policy of re-nationalization and increasing the government’s control over the economy (Pappe and Galukhina, 2006), partly destroying the previously achieved results of the “second transition”. The situation in the “post-revolutionary” countries often remains unclear; the disempowerment policy in Ukraine led to strong reduction of economic growth and FDI and increased uncertainty and Georgia seems to have great difficulties in developing a democratic political culture.

In this paper I am going to discuss the challenge of the second transition from the point of view of interaction between political and economic actors. This perspective is only one aspect of complex processes of the “second transition”, which also include interaction with other actors and other factors. Nevertheless, this point of view seems to be able to
provide helpful insights in the processes of the second transition. Significant power
congestion in economy is always associated with political power (Eucken, 2001), and from
this point of view large post-Soviet business groups seem to be important for the stability of
the current equilibrium and for the decision-making in the “second transition”. Moreover, due
to the power-property problems the distinction between economic and political actors in the
post-Soviet world has not always been clear. In this paper I focus on the interaction of
incumbent political groups (with formal and informal domination of governments and
parliaments) and leaders of the largest business groups, both private and public. The latter
also often also high-ranked governmental officials, but their business activity and assets still
remain an important source of power for them (unlike incumbent politicians, who derive
property from their power positions).

The second transition is a relatively new process; there are currently no clear examples
of “success” or “failure” among the post-Soviet countries. Unlike the first transition, the
second transition is not necessarily associated with a transition recession; on the contrary,
countries experiencing second transition are often characterized by high growth rates (partly
resulting from positive development on international commodity markets). Therefore an
observer also does not have a clear measurement instrument for the advancements in the
second transition. Therefore this paper presents only a very initial discussion of the changes in
the post-Soviet institutional equilibrium and potential problems appearing.

2. INSTITUTIONAL EQUILIBRIUM IN THE FORMER SOVIET UNION

Generally speaking, the post-Soviet institutional equilibria are characterized by four
major elements, which are to a certain extend present in all FSU economies. First of all, the
governments abandoned their attempts to intervene permanently in all economic decisions
(Tambovtsev, 1999) through vertical relations for both private and public enterprises (indeed,
the latter received a significant de-facto autonomy) and therefore legalized the de-facto
autonomy of economic decision-making and property rights of the Soviet administrative
market (Kordonskii, 2000; Timofeev, 2000). Government not only stopped its attempts to
influence the decision-making, but also reduced its (already limited) protection of contract
enforcement and property rights. An inevitable result of this development has been the
increasing deficit of law in the post-Soviet societies as the second characteristic feature of the
existing equilibria. The legal framework of economic activity remained insufficient and often
poorly defined; moreover, post-Soviet countries suffered under a gap between formal law and
its implementation (Oleinik, 2002). Since the deficit of law is typical for a wide variety of
developing societies, informal relations based on mutual trust often compensate it. However,
the third characteristic feature of the post-Soviet economies is that they suffer under an
extremely high deficit of trust, both vertical (i.e. trust between governments and economic
actors) and horizontal (i.e. trust within economic system) (World Bank, 1997; Leipold, 1997;
World Value Survey, 2002; Oleinik, 2005a); in Southern CIS countries traditional institutions
still preserve a higher level of informal social capital, but even there reduction of trust is
evident (Moskovskaya, 2005).

Therefore the economies are split in separated systems of exchange and hierarchies
with low level of interaction between each other. In large countries like Russia this process
has an important territorial dimension of disintegration of national economic space, at least
for a certain period of time (Glushenko, 2004). This is also one of the most important factors
of disorganization as a reason for economic decline in the post-Soviet world (Blanchard and
Kremer, 1997). Moreover, deficit of law leads to increasing shadow economy, and the deficit
of trust prevents the development of “two economies” according to the De Soto (1989)
scenario (small legal economy “behind the glass walls” and large second economy based on
market principles); it is rather possible to argue, that the post-Soviet world exists in a “two-level” economy, where all economic actors are at the same time engaged in transactions with different “shadow economy” degrees; instead of “black” and “white” sectors they have a high variety of “grey” (Kapelyushnikov, 2001b). The last feature of the post-Soviet economies is also partly result of this “double deficit”, but also a legacy of the Soviet past; the post-Soviet countries have a very high degree of concentration of economic power (see e.g. Chebotarev, 2002; Olcott, 2002; Kowall and Zimmer, 2002; Orlova, 2003; Guriev and Rachinsky, 2005, Ashlund, 2005) of both private and public business groups. Small group of “oligarchs” (like Russian oil, gas and metallurgical corporations, Ukrainian regional business groups or multinationals and banking groups in Kazakhstan) in all post-Soviet countries used to hold a dominant stake of economy’s assets.

The term “equilibrium” assumes, that the existing institutional system is stable. Although it is not the only possible approach (an alternative could be the “cultural” path dependence argumentation, see e.g. Panther, 1998), in this paper I focus on explaining the stability properties from the point of view of the interaction of the demand side (economic actors) of the market for institutions and its supply side (government), which creates and enforces institutions. The basic idea (in line with logic of Acemoglu et al. (2005)) is, that the structure of political institutions determines the development of economic institutions and also influences the preferences of economic actors, which also become interested in support of the existing institutional structure.

From the point of view of political actors, the post-Soviet “semi-autocracies” (Gel’man, 2003, Olcott and Ottaway, 1999, Levitsky and Way, 2002) with a formal presence of democratic institutions, which are unable to influence the current political decisions and to transfer the power from the hands of incumbents support the existing institutional equilibrium is based on power seeking and rent-seeking. From the rent-seeking point of view, intransparent and sophisticated norms (which form the background of the “deficit of law”) increase the possibilities of public authorities to collect rents. From the power perspective, post-Soviet regimes used the described institutional equilibrium to solve their legitimacy problems (e.g. to create a group of actors able to support them in struggles against internal opposition or to achieve international acceptance of their regimes). On the one hand, governments more interested in external legitimacy designed the privatisation strategy in order to attract multinationals (Kazakhstan and Azerbaijan are the most prominent examples); in other countries the more important aspect has been the search for support of old directorial corps and creation of new “oligarchs” (Russia or Ukraine). In both cases governmental strategies resulted in strong power concentration. However, the legitimacy-seeking strategies included not only the establishment of the groups loyal to the current regime, but also providing guarantees for their persistent loyalty. The distribution of power between state and business in the majority of the FSU countries could be described as “strategic business capture with tactical state capture”. On the one hand, business groups could effectively enforce their position in specific tactical political decisions especially influencing economic policy. But the other hand, the governmental support of a “rescue state” (Iwasaki, 2004) remained the initial source of income for business structures: as the public protection of property rights and contract enforcement was not equal, the groups with privileged relations to the government had additional competition advantage. Only the persistence of existing elite could protect business assets and even physical security of business leaders from the threats of “double lack of legitimacy”: from the view of law (because of criminal or at least dubious sources of their formation during the privatisation, which are ones again result of imperfect law system) and from the view of society (because of lack of confidence and respect to private property and great income differences resulting from unequal distribution of property at privatisation stage) (see Pappe, 2000; Darden, 2001; Latov, 2003). In a similar way,
multinationals also became involved in corruption networks and dubious deals (Hellman et al., 2000c). From this point of view the deficit of law and deficit of trust could be explained.

The major result of this strategy of reforms was the establishment of a structure of private actors interested in existence of the described equilibrium. Therefore the post-Soviet countries deal with a self-sustaining inefficient institutional equilibrium, or institutional trap (Polterovich, 1999). Privileged groups benefit from redistribution effects of rules and create a kind of “adverse selection” process, where companies involved in lobbying and non-productive entrepreneurship are more successful and force other businesses to accept this strategy (Gaddy and Ickes, 2001; Radaev, 1998; Hellman et al., 2000a and 2000b; Slinko et al., 2005). Besides, as the concentration of market power and property is high, business groups often prefer a lower level of public protection of property rights, because they can use private protection (in form of security agencies, corrupt law enforcing structures etc.) and receive specific competition advantages over other actors (Sonin, 2003; Polishchuk and Savvateev, 2004). Demand for bad institutions could result from internal conflicts within the business elite in a deficit of law and deficit of trust environment, when large business groups abused their political influence to ruin the business of their competitors. Moreover, there is an increasing demand for government’s intermediation in business conflicts (Fortescue, 2003). Therefore the new equilibrium turns to create an environment of “endless redistribution” (Sonin, 2005), which has a long-term negative influence on economic development.

The structure of the bargaining power based on the problems of “double lack of legitimacy” contributed to the catastrophic deficit of trust between the state and the business structures leading to a kind of “prisoner’s dilemma” when businesses appreciate any existing institutions higher, than any possible changes (even if they seem to improve the quality of institutions). Similar factors let business groups support the existing political regime (with its deficit of democracy and inefficient institutions) rather than any changes, which may be dangerous for their position and “not to play games of chance with the government” (In this case the “pessimistic agreement” (Oleinik, 2005a) based on the idea of permanently lying counterpart is inevitable not only in business-business, but also in state-business relations. Finally, as winners of partial reforms (Hellman, 1998), businesses are therefore interested in “steady state transition” not only because of distribution advantages, but also learning costs and other specific investments, which make any changes of institutional environment less attractive.

3. DRIVING FORCES AND CHOICE OF THE PATH OF THE SECOND TRANSITION

If there is equilibrium on the “market for institutions”, what factors do cause the start of the second transition? From the point of view of this paper, two lines of argumentation could be mentioned. First, the second transition could result from changes of preferences of political and economic actors. Second, it could be described as an unintended result of intended action in Hayekian sense: competition and conflicts of political and economic actors interested in preservation of existing equilibrium effectively lead to its changes (see also Knight, 1992 for similar modern discussions). As it seems difficult to make a clear empirical distinction between these two arguments, in this paper I am going to discuss both approaches.

From the point of view of changes of actors’ preferences, the reasons for the second transition partly (at least, if preferences of political actors are discussed) coincide with the factors, which caused the first transition a decade ago. Despite its stability from the point of view of market of institutions, post-Soviet economies face the challenge of global political and economic competition. On the one hand, low efficiency of existing institutional equilibrium makes further reforms inevitable to regain competitiveness in international
community (Oleinik (2005b) calls this process “invidious comparison”). On the other hand, mutual learning effects of global yardstick competition increase the pressure on semi-authoritarian regimes. Therefore the countries are forced to enter a new stage of reforms by the external environment.

In a similar way internationalisation of business activity also makes existing equilibrium less attractive for corporations. A long period of substantial growth in 1999-2004 in almost all FSU countries created new opportunities for business groups, which have used windfall profits in order to expand internationally. It was a crucial trend for the Russian companies, which included acquisitions and establishment of subsidiaries abroad, public offerings and bonds placement on international equity and debt markets, as well as mergers with multinationals (e.g. the merger of TNK with British Petroleum) (Pappe, 2004, 2005), but other corporations e.g. from Ukraine (Shkrapova, Dubogryz, 2005) and Kazakhstan (Libman and Kheifets, 2006) also increased its international activity. Internationalisation makes transparency, better protection of property rights and clear rules of the game more attractive for business groups (see e.g. Heinrich, 2003 for empirical evidence).

The second line of argumentation focuses on second transition as a result of conflicts between governments and businesses, which have been numerous in the post-Soviet countries in the last decade, like those of Gusinski, Beresovski and Khodorkovski in Russia, Kazhegildin, Abliazov and Zhakianov in Kazakhstan and Timoshenko un Ukraine. As described above, conflicts between entrepreneurs and the state often contributed to the consolidation of institutional regime. Indeed, in Russia and in Kazakhstan state-business conflicts marked a new period of increasing the state presence in economy and slowing down of economic reforms of the “second transformation”. Nevertheless, conflicts could also cause important changes of equilibrium. In Ukraine they even contributed to the political transformation: Aslund (Weekly Standard, 27 December 2004) describes the “orange revolution” as “revolt of the millionaires against the billionaires”, i.e. of business leaders without strong ties to the government against state-supported (and supporting) business groups. By-products of instruments could be even more important, than objectives of actors, i.e. even if actors try to strengthen their political and economic power within the equilibrium, the outcome of the conflict could be the “second transition”, and vice versa.

Generally speaking, three factors could influence the conflicts outcomes: the instruments applied by the actors, intensity of conflicts and actors’ motivation. The latter point is less interesting in this context, as the “changes of preferences” line of argumentation has already covered it. The influence of intensity of conflicts on their outcomes seems also to be obvious – the higher the intensity, the higher the probability of changes of existing equilibrium. However, this factor does not allow us to make any conclusions regarding the direction of changes, which may as well support the existing equilibrium. The most important factor seems to be the instruments used by conflicting parties. Instruments used in state-business conflicts could be divided in two groups. First, actors apply “traditional” problem-solving instruments like internal negotiations, administrative measures and bargaining, borrowing them from the old Soviet “administrative market”. Second, “alternative” instruments include support of political parties and open electoral competition, use of courts and mobilization of masses (as in Ukraine). The first group of instruments supports inefficient equilibrium, even if actors are trying to change it. The alternative instruments also provide no guarantee of changes, but at least open a window of opportunities for transition. The two major positive by-products of alternative instruments include: (1) actors get used to “new” instruments (thus their application reduces learning costs for better institutions and “demand for bad institutions”) and therefore create new behavioural routines and (2) permanent application increases the quality of “new” instruments (e.g. legal procedures or parliamentary elections).
“Alternative” instruments are risky (or, at least, are perceived as risky), and that is why it seems reasonable to assume, that only a powerful player is ready to use alternative methods instead of traditional “hidden bargaining” instruments. On the other hand, the Schattenschneider’s (1960) idea that weaker party in political conflicts is more interested in attracting additional participants (or socializing the conflict), which is exactly the case when alternative instruments are applied. The experience of Russia and Ukraine in the 2000s supports the first hypothesis. Although, as mentioned above, the general model of “strategic business capture by tactical state capture” characterizes the majority of post-Soviet countries, there are significant differences in power asymmetries within the framework of this model. Generally speaking, Ukrainian oligarchs seem to be more influential in political issues, than the Russian ones, at least, in the 2000s. Therefore in Ukraine the business seemed to be more likely to apply alternative instruments, than in Russia, where it still focused on bargaining. In Ukraine business leaders were among the strongest backers of the opposition; several leaders of the “orange” movement were wealthy businessmen. In Russia business still preferred to remain outside the political landscape; exceptions like Gusinski and Berezovski did not receive any support of other business leaders. Although in 2003 the situation seemed to change in favour of organized business representation, “civilized” lobbying and dissolution of power-property systems (Peregudov, 2003; Kliamkin, 2006), the Khodorkovski deal demonstrated, that changes were illusorily (Yakovlev, 2005).

On the contrary, several empirical studies show, that in Russia in the 2000s government agencies were more active in using law as instrument of enforcement than private actors and actually initiated the changes in the “demand for law”. Despite positive effects (like learning or quality improvement of legal instruments) strict public control over judicial power supported further consolidation of power on business side in order to bargain with the state and reduces confidence in law (Yakovlev, 2003a). That is why it is possible to assume, that the use of alternative instruments by business actors creates a stronger incentive for “better institutions”, than by government. It means that societies with stronger business have better chances to get out the institutional trap – even if national business structures support inefficient institutions.

Anyway, the use of alternative instruments also depends upon a number of factors potentially able to influence the relative bargaining positions of economic and political actors. The probability of conflicts increases by power shifts, which are caused by different processes. First, the internationalisation of business in term of increasing economic growth increases the business legitimacy, its independence from the government and its bargaining power in government-business relations. Naturally, the present-day economic growth is an ambiguous process: it can be used (and is used) by the state as a source of popularity to improve its bargaining positions and to reduce its dependence from “delegation of economic power”. Therefore it is possible that the government gains even more from growth than private business and can control or restrict the internationalisation trends (Piel et al., 2005; Vahtra and Liuhto, 2004; UNCTAD, 2005).

Second, the rise of the shadow economy in the post-Soviet states partly results from the strategy applied by business groups (mostly medium-sized, but also large corporations) to distance from the government before the internationalisation opportunity appeared. This strategy turned out to be less efficient – the need of property rights protection created a new market for “violence entrepreneurs” that captured business groups. Later the government enforcement agencies entered this market and were more successful, than their criminal competitors (Volkov, 2002). The “shadow economy” strategy increased the double lack of legitimacy. Therefore the public enforcement agencies were able to regain control over businesses (mostly in unofficial way, thus supporting inefficient equilibrium).

Third, presence of internal conflicts is also a material factor, mostly because it
influences the bargaining positions of both sides. The degree of consolidation of political elite and of the business elite has been different in different post-Soviet countries. The Ukrainian elite has been less integrated (Way, 2005). The opposite situation exists in Kazakhstan. Russia evolved from the “Ukrainian” case of the mid-90s to the “Kazakh” case of the mid 2000s (Yakovlev, 2003b). However, the major influence of the existence of internal conflicts on the results of the state-business struggle is that they contribute to a higher intensity of conflicts. Moreover, internal conflicts can cause what may be called “transmission” effects, i.e. a political conflict could be “transferred” to the business side and vice versa, as in Ukraine in 2004 (Gel’man, 2005). It is sometimes argued, that similar processes happen in Kazakhstan (Nezavisimaya Gazeta, 26 April 2005). Once again, thus they increase the intensity of conflicts in the business-government relations.

Fourth, international acceptance of political regime acts as an external restriction on instruments applied by the government in state-business conflict. Most post-Soviet regimes have a vested interest in their integration in international system and their acceptance abroad, which act as a legitimacy source and are important for personal wealth of incumbents. The experience of recent “revolutions” in Ukraine, as well as in Georgia shows, that these external constraints are important (Ryabchuk, 2004). To conclude, external pressure on the political regime (like “external pressure” on private businesses in turn of their internationalisation) is an important factor leading to superior outcomes of state-business conflicts in terms of institutional development.

The next question to be addressed in this framework is the choice between the semi-authoritarian and the post-revolutionary paths of transition. There is already a relatively large literature on post-Soviet “colour revolutions” mostly in political sciences; in this paper I am going to discuss only one aspect of this problem related to state-business interactions. Generally speaking, choice of paths of the second transition is a problem of political choice: the decision of business actors to invest in political activity not only to change economic policy of the government, but also to replace political incumbents. Unlike economic reforms, which mostly constitute a continuum of different policies, political transformation is often a discrete choice. Positions of business structures could differ and depend generally on their ability to support political changes and willingness to invest in political changes. It is important to notice, that not all political investments of business structures could be considered as “investments in political change”: the majority of them are driven by pragmatic goals within the ordinary business activity in the post-Soviet countries, where close political-business ties are an inevitable element of the “power-property” system. But only in few cases business really does invest in political opposition counting on its political success in fight against the incumbent. In Russia the most representative case is the support of the OVR party by several business groups in 1999; however, only Ukraine gives an example of systematic business investments in political changes throughout the last five years.

The ability to influence deals with the power asymmetries: naturally, more powerful business has better opportunities to force political transformation from the government, which us more restricted in its decisions. The issue of willingness of political investments is more difficult and could generally be explained by two factors. On the one hand, business decisions take potential benefits of alternative strategies into account. The situation is to a certain extent contradictory in itself: if businesses are more powerful, they have better chances to succeed with their political investments, but may have less interest in investing in political activity, as their ability to influence the current decisions is higher. On the contrary, power concentration of the political incumbents could become a factor supporting business’ decision to invest in political action and to directly back the opposition. On the other hand, the decision depends upon potential risks of political changes, which are directly connected with the degree of the double illegitimacy. Probably, its second aspect (illegitimacy from the point of
view of the public opinion) is even more important, because it could heavily influence the political decisions of incumbents.

An additional factor influencing the decisions of businesses could be the mutual learning from experience of other cases of the “second transition”. In these cases the perception of events is more important, than events themselves. In the current period of “colour revolutions” in Georgia, Ukraine and Kyrgyz Republic experience of “neighbouring countries” shapes the positions of governments and businesses. “Lessons from abroad” are ambiguous. On the one hand, there is evidence of successful business opposition in Ukraine. On the other hand, politics of all “post-revolutionary” regimes (or at least its reproduction by the media) supports business fears: “new democracy” starts with redistributing property, deprivatisation (Ukraine and Kyrgyz Republic), imprisonment and property confiscations (Georgia) and even mass plundering of medium- and small-sized shops (Kyrgyz Republic). It is possible, that businesses take this experience into account by making further political investment decisions. Naturally, political incumbents in control of the media stress exactly this kind of experience to influence business decisions. The opposite scenario of transition (as in Russia or in Kazakhstan) also gives certain reasons for concern, especially from the point of view of increasing state interventions in the national economy in these countries. However, it would be better not to overestimate the learning factor. Furman compares the businessmen behaviour in case of their political investment decisions in Russia (the Khodorkovski case) with “a butterfly flying to a candle” (Moskovskie Novosti, 4 July 2003): in spite of well-known and well predictable outcomes, businessmen still initiate political investments.

4. DILEMMAS OF THE SECOND TRANSITION

As described above, the second transition in the post-Soviet countries has been relatively unstable yet. From this point of view a critical point is what are the major threats and problems faced by the countries, which enter the stage of the second transition, and how could they overcome them. Actually, it is possible to say, that there are three groups of problems typical for the second transition. The first and the second groups are to a certain extend similar to what existed in the first transition, although they also have certain new aspects; the second group deals with completely new challenges, typical for the second transition as a new process in the post-Soviet space.

First, like the first transition in the FSU countries, the second transition could also become an instrument for the new round of the “endless redistribution” within the same system. The problem of “redistribution instead of reforms” has been present in post-Soviet countries since the very beginning of the first transformation; the problem is, that the last fifteen years have also formed certain behaviour patterns for economic and political reforms: the problem of “institutional pseudomorphism”, which actually prevent formation of new efficient norms (see Yevstigneev, 1997; Libman, 2005). Moreover, there are already interests groups formed, which benefit exactly from new reform rounds (i.e., the winners of partial reforms”); naturally, they could influence the reform strategies in order to turn them to a new redistribution. Russian administrative reform in 2005 gives excellent examples of these rent-seeking processes.

Post-revolutionary scenarios are less subject to this problem, because they start the second transition with complete re-building of the administration. But even for these countries the problem described is present. In case of the post-revolutionary development another problem and a trade-off occurs: although strong business seems to be good to initiate the second transition, it becomes an important threat for the transition itself, as makes business lobbying abilities more important. If business continues using alternative instruments in its struggles with political actors, the logic of unintended outcomes could still lead to better
equilibria, what seems to happen in Ukraine in turn of the elections 2006: exactly the continuing conflict seems to prevent country’s movement to a new cycle of semi-authoritarian regime (Hale, 2005). From this point of view, “traditional” instruments like the off-budget funds in Georgia, bargaining between president and petroleum companies in Ukraine in spring 2005 or proposed “voluntary payments” of oligarchs (Aslund, 2005) reduce the probability of success of the second transition.

Second, as the first transition, the second transition does not usually happen in an isolated country, but covers a variety of states in the post-Soviet world. From this point of view it is possible to expect, that governments could learn from each other and from potential threats for their stability, which could be connected with different scenarios of the second transition. Indeed, there is evidence that Russia’s and Kazakhstan’s internal policy (including decisions on economic reforms) was influence by the threats of the “colour revolution” perceived by political leaders. Moreover, the post-Soviet incumbents interact in order to join their effort in fight against the opposition via integration rhetoric (as an instrument to regain international legitimacy), CIS election observers (Libman, 2006) and even interaction of security services (Aslund et al., 1999). Unlike the old hierarchical system of the Soviet bloc, he community of post-Soviet countries is less centralized; therefore the time gap between start of the second transition in different countries could be larger and the ability to learn from potential power threats also increases, as compared to the CEE and Soviet Union leaders of the 1980s.

The third issue to be mentioned here is what may be called a dilemma of trust (see Oleinik, 2005c for a similar discussion). On the one hand, it is impossible to carry out economic reforms without fighting the oligarchic power concentration (see Goldman, 2003). On the other hand, they are to be implemented in an economy with a very low level of trust; therefore even benevolent intervention of the government may be considered a new threat for the private property and economic stability (especially because the results of the privatisation would be probably reconsidered) and reduce incentives for economic activity (see Aslund, 2005). This is a very important distinction between the second and the first transition: the latter did not need to take into account the existing formal property rights and their protection. The problem appears as a consequence of the general deficit of trust in the post-Soviet world; therefore relative advantages in vertical trust could be very important to overcome this dilemma. Once again, post-revolutionary countries seem to be more successful to solve the trust problem (the very success of the “revolution” depends upon the accumulation of trust by the opposition); on the other hand, higher trust increases the threat of the new concentration of power and therefore starts of a new round of “endless redistribution”.

5. CONCLUSION

The history of the “second transition” has not been written yet, and as any transition process is to a certain extend a “trial and error” (Oberender and Fleischmann, 2005), its outcomes are also unpredictable. However, from the point of view of formation of new political-economic equilibria in the post-Soviet states, this issue seems to become the most important for the discussions of economic and political future of the region.

It is hardly possible to make a clear statement regarding the optimality of one of the two described scenarios. Generally speaking, their interrelation could be considered from the point of view of the general discussion of whether democracy supports economic reforms and institution building: in a democratic state power of interest groups and multitude of veto players, and in a authoritarian state inefficient bureaucracy and “tinpot” behaviour of incumbents (Wintrobe, 1990) prevent consequent implementation of reforms. The problem is, however, that the post-Soviet semi-authoritarian regimes actually lack many advantages of the
“true” authoritarianism in favour of reforms (like low number of veto players), although share its problems like bureaucratisation and rent-seeking. On the other hand, new political regimes in post-revolutionary countries also still fail to achieve the status of consolidated democratic regimes.

Another problem is, that the current post-Soviet institutional equilibrium is a political-economic in its nature, and therefore the interdependency of social orders could prevent successful reforms without political changes. Russia and Kazakhstan are to a certain extend examples of this statement. However, a “colour revolution” does not always mark the establishment of a completely different regime. One of the negative alternatives of development is the establishment of a series of semi-authoritarian and authoritarian regimes following each other under similar institutional conditions in economic sphere. Latin America is to a certain extend an example of this development. An alternative could be the long-term process of political and economic reforms “in the shadow” of the old inefficient equilibrium, which could yield results only after decades.

A helpful approach to analyse the second transition could potentially be the theory of systemic vulnerability, originally developed for the Eastern Asian nations. It states, that three factors are relevant: pressure of a “large coalition” on the government, absence of natural resources and external threat (Doner et al., 2005). From this point of view, first, a competition of semi-authoritarian and post-revolutionary scenarios of the second transition as a result of internal political competition and international rivalry in the post-Soviet space could be generally beneficial for all countries: it could act as a “discovery procedure” (as any other international institutional competition (Vanberg and Kerber, 1994)) finding out the optimal scenario of transformation and also limit the ability of new and old incumbents to extract rent. Ukrainian transition proceeds to a certain extend under the influence of this competition (in form of political competition between the “orange” coalition and the opposition of Yanukovich), and it seems to be a factor of its relative success. Moreover, competition could support formation of large coalitions in post-Soviet countries.

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