

Recombinant Institution Building: Post-Socialist Experience[†]

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Abstract: After 25 years of political, social, and economic transition, the picture of the post-socialist world is rather diversiform. Seemingly, the array of countries from then Czechoslovakia to Kazakhstan set off from the same starting line after the communist regime collapsed. In this paper, we attempt to look into the black box of path dependency in post-socialist Europe to answer the question: is the high variation in the quality of contemporary democratic and economic institutions reconcilable with path-dependency theory? Using the path-dependent theoretical framework adjusted by David Stark's concept of recombination, we provide explanations that reconcile the path-dependent approach with the roles played by actors in the process of recombination, thus leading to different outcomes through path-dependent developments.

Keywords: Institutional Economy, Path Dependency, Corruption, Recombination, Authoritarian Regimes

JEL Classification Numbers: D37, F55, O17, P31

1. Introduction

It has been more than 25 years since many post-socialist European countries voted out communist regimes and began a transition to a democratic system of governance and capitalist economy based on private ownership of productive assets. However, the journey is far from complete, and some countries have slipped back into (semi-) authoritarianism and/or oligarchic capitalism. In this paper, we apply a path-dependent perspective adjusted by David Stark's approach of recombinant institution building (Stark, 1996) to analyse the transitional development. We argue that the development in many post-socialist states was path-dependent—however, not in a deterministic way.

By using Stark's concept of recombination, we show that the development in individual countries was to an extent set by the key actors in the critical moments after the communist collapse. While at the very moment the regime fell it was not yet determined what the resulting transition would look like in 25 years, the key actors at that critical moment applied certain resources—financial, time, networks, and power—which consequently defined the future course of country-specific development. We use this approach also to illustrate how corruption became the *modus operandi* of the privatisation process and spilled over into the political arena. In the empirical part of the paper, based on concrete examples of country-specific developments in post-socialist states, we show that the two main contemporary types of

transitional outcomes include authoritarian regimes in the post-Soviet countries and Potemkin democracies in Central and Eastern Europe. In both cases, property holders use their power and corrupt practices to limit the democratic rights of the propertyless. In the cases of Georgia and Ukraine, we illustrate the third way of reaching a similar outcome by slightly different means.

The structure of the paper is as follows. The next section introduces David Stark's concept of recombinant transformation in the post-socialist countries. Subsequently, we define two key elements of the adjusted path-dependency approach: learning curve and power relations. The third section presents our main theoretical contribution and explains at which moments the 'recombination' took place. The fourth section explains the spill-over effects of corrupt practices from the economic to the political spheres. The final section discusses the main lesson on how the path-dependent approach may contribute to our understanding of different transitional outcomes in countries that started from the same situation 25 years ago. The following Georgian and Ukrainian case studies provide an illustration.

2. Theoretical Background of the Recombinant Transformation

David Stark studied the change of property ownership and economic relationships in early-1990s Hungary. Although Stark's work is strongly empirical, it also contributes to the transitional studies to a considerable extent. Stark is rather cautious about the term 'transition' and prefers 'transformation' (Stark, 1994: 3). He argues that, despite the popularity of the word, communist regimes did not collapse in a way that would leave former socialist states as *tabula rasas*—clean of all ideas, actors, laws, or institutions. Instead, his argument goes, the local institutional legacies interacted with the newly perceived goals and aims of many actors that were already present.

In this sense, David Stark rejects the perception of the change from a command economy to a market economy through an institutional vacuum that was subsequently filled with new institutions. On the contrary, Stark argues, the way the communist regimes fell in various countries bore consequences for how new institutions were rebuilt. Speaking metaphorically, Stark writes that he does not examine institution building 'on the ruins of communism, we examine how actors in particular locales and settings are rebuilding organizations and institutions with the ruins of communism' (highlighted as in the original, Stark, 1994: 3).

Change has always been coupled with a certain amount of uncertainty. Regime change, whether we call it transition or transformation, brought along a great deal of uncertainty. As we know from the economic literature, uncertainty harms economic development and should be limited as much as possible in order for the economy to grow (e.g., North, 1990). Stark acknowledges that the post-socialist economy presented a 'rapidly changing environment' (Stark, 1994: 4) and in such an environment, the goals of most actors are 'pragmatic: at best to thrive, at least to survive' (Stark, 1994: 35). They do so by redefining and recombining resources, which might vary from habits and practices to networks or informal ties (Stark, 1994).

How did the new forms of institutions and organisations in Eastern Europe emerge? In an attempt to answer this question, Stark points the reader's attention to economic sociology that highlights three ways in which new organisational forms are born. Firstly, there is imperfect reproduction, when the old organisations reproduce successfully, 'but [fail] to perfectly encode the various bundles of routines that make up an organizational form' (Stark, 1994: 17). Secondly, there is 'diffusion from outside', which quite often means imitating successful forms of institutions or organisations from other countries. The third way is 'de-institutionalization' (Stark, 1994: 17). Stark explains it as the situation when relaxing legal rules and formal boundaries between a previously limited number of entities might lead to the creation of new organisations or entities. In many post-socialist economies, the transformation featured all three types of new institution building.

David Stark coined the term 'recombinant' in the early 1990s when he studied mostly firms and the organisational economy in Eastern Europe. However, in his later work, he proved that this approach can be applied to studying institutions, capitalist regimes, and their diversity in post-socialist Europe. In his joint work with Laszlo Bruszt, Stark defends the argument that capitalist regimes in post-socialist Europe took various forms. It is basically another account of the recombinant capitalism arguments, presented from another point of view.

At the beginning of their essay, Stark and Bruszt pose a question: 'How do we carry out the comparative analysis of capitalism after the fall of socialism?' (Stark and Bruszt, 2001: 1131). The authors highlight how—while in the past capitalism had been defined negatively and in a singular way as the opposite of socialism, and their systematic comparison enriched our understanding of both—'the world has changed, and the demise of socialism poses a challenge for comparative institutional analysis' (Stark and Bruszt, 2001: 1131).

Based on the experience of other regions of the world, the authors claim that 'the starting point of the East European transformations' (Stark & Bruszt, 2001: 1131) is clearly different from that of other countries or regions. Stark and Bruszt go further and explain that 'what sets the post-socialist transformations apart is that they created a class of property holders at the same time that they extended political rights to the property-less'. Therefore, investigating the variation in how the property holders' class has been created in post-socialist Europe is a key to understanding the nature of, and differences among, capitalist regimes of Eastern Europe. This argument brings in the categories of political economy—the property holders and classes. In fact, the class struggle between the property holders and propertyless has taken different forms compared to a hundred years ago. However, this conflict continues to represent the main driving force behind institutional development in transitional Europe.

Stark and Bruszt (2001) also explain their understanding of path dependency in the transformation of post-socialist economies. The authors do not refer to path dependency just to highlight that history matters, as is often perceived. They argue that the concept of path-dependency 'forced us to be rigorous about identifying critical junctures in which the temporality and sequencing of particular events are consequential' (Stark and Bruszt, 2001: 1132). Thus, for Stark and Bruszt, path dependency does not

mean absolute determinacy in the sense that everything is set by the past (they refer to the 'revenge of the past' metaphor). Rather, they use the concept like a 'method for grasping the recombinant character of social innovation' (Stark and Bruszt, 2001: 1133).

Stark and Bruszt (2001) conclude their essay by stating that the co-existence of capitalist economic organisation with democratic political life is a driver of economic development and reforms. Higher quality political democracy, they claim, is contributing to lower levels of inequality. The key to success, as their argument goes, is political accountability. We build on their argument in our paper to show that this co-existence has not adopted a stable and accountable form. Rather, it is still a fragile structure that has been systematically undermined by the corruption and authoritarian practices that follow the overarching goal of development and concentration of power to the property holders and limiting the democratic rights of the propertyless.

3. The Key Elements of Path-Dependent Development

It is important to bear in mind that path dependency is a major part of neo-institutional theory and a neo-institutional approach to understanding the social world. As an institutional approach, it has to cope with the actor's free will and the actor's role in social change. Otherwise, it can only treat change as exogenous and arising outside the theory. Reconciliation is offered by some authors, who argue that the path-dependent theories are necessary to 'postulate initial contingent events' and, subsequently, conditioned by the contemporary situation, actors develop their interests and experience within the system. As they become more experienced in the changed environment, it is their motivation to maintain it as they become stronger and stronger. Crouch states that under such conditions, 'A path may therefore continue to be followed by rational actors even if it no longer produces general positive returns, because it does produce insider rewards for powerful interests' (Crouch, 2005: 81).

Colin Crouch (2005) picked up on the original idea of Mahoney (2000) that understanding the mechanisms through which systems reinforce themselves is the key to allow for an actor's role in path-dependent explanations. Crouch then continues to highlight two specifically important ones: the institutional learning curve and the role of power relations.

The learning curve, according to Crouch, is a very important 'source of path-dependence' (Crouch, 2005: 78). The core of the argument is that the actor, when facing a situation in the initial state, at hypothetical time t , has an array of moves to make. As the actor acquires experience in a specific action, she will be inclined to choose the same action over and over again. At the hypothetical time $t+i$, the particular action (be it a solution to a problem, behaviour pattern, etc.) will be the most effective for the actor as she becomes experienced in it, although it might not be the most effective one in general. After some time, 'the actor is unable to change, because all competence at the discarded approach has been lost. Even if the actor comes to perceive this, she is unable to do anything about it, but knows only how to keep repeating the now failing path' (Crouch, 2005: 79). The strength of this type of path-dependent

explanation is that it allows for understanding of behaviour that would be considered irrational by rational choice theorists.

The second important mechanism of the path-dependent approach is the role of power relations. As Crouch puts it, ‘social situations are rarely “innocent” spaces’ (Crouch, 2005: 80). Even if the actors have equal power at the initial stage, by using their knowledge to solve problems, they reinforce their position and may attract the support and help of previously unsuccessful actors. Crouch admits that the logic of power relations has not been part of the path-dependent theory and has been quite often missing in the institutional analysis (naturally, as it is an actor-oriented approach, we would add). On the other hand, the logic of power relations supports the mechanism of self-reinforcement and thus path dependency.

4. Privatisation: Where the Recombination Happened

The transformation period started with the gradual fall of socialist states during 1989–1991 and their transition to capitalist societies. The main deficiencies of the socialist systems, as then perceived by both political analysts and the general public were the lack of private ownership of productive assets and the lack of democratic elections. Therefore, the main goals of the transformation were the creation/restoration of private property over productive assets and introduction/restoration of democratic systems of government. Two decades later, we see that private ownership has been restored in all transitional economies, including the post-Soviet region. However, the restoration proceeded without proper legal frameworks and underlying regulatory mechanisms, which led to various suboptimal forms of privatisation and ultimately created a high degree of concentration of ownership that effectively increased social inequality. Privatisation was the key process in the transition of post-socialist economies. The way privatisation was conducted has in many ways set the path of subsequent development not only in the economic, but also in the social and political, spheres of governance. In this section, we will argue that it is in the privatisation process where the actual recombination took place.

Concerning post-socialist countries, Anders Åslund asserts that ‘nothing aroused more passion than privatization... it was fundamental dividing line between a socialist and a capitalist society’ (Åslund, 2013: 164). One reason, according to Åslund was the unprecedented change in the structure of ownership of economic resources. Djankov and Murrell (2000) estimated that around 150,000 large and medium-sized companies and several hundreds of thousands of small firms went from state to private ownership. Additionally, the knowledge and expertise required for privatisation on such a scale involved economics, law, and politics, mixed with arguments of morality and justice (Åslund, 2013).

The overarching goal of creating private property was so important that it pushed the procedural aspects of privatisation to the back stage. Although various countries used various privatisation methods, the lack of proper institutions, including the regulatory mechanisms, legislation, and their enforcement, led to a great deal of shadow transactions, corruption, and even violence. This state was understood as a

necessary side-effect of privatisation and was to a large extent tolerated by these societies. Anecdotally, this was illustrated by the then infamous quotation attributed to the former Czech Prime Minister and implementer of the large-scale privatisation, Vaclav Klaus: ‘Let us turn off the light and when we turn it on again, the private property will be there’.

The scope of this article does not allow discussing the aims of privatisation or the choice of privatisation methods in great detail. After all, there is a vast amount of literature that has done the job satisfactorily (a relatively good overview is provided by the European Bank for Reconstruction and Development in the ‘Transition Report 1997’). Let us note that the small-scale privatisation was enacted mainly through auctions. The auction mechanism favoured insiders (e.g., the incumbent managers) who were able to set up realistic business plans. It also favoured those who had sizeable starting capital that during socialist times could be accumulated only illicitly, such as through petty theft in the retail sector or distribution, illegal exchange of foreign currency, etc. In many cases, the small auctions were gradually overtaken by organised groupings that prevented sole subjects from bidding at the auctions, often under the threat of violence. Thus, the first decade of transition was marked by small-scale criminality and violence, including blackmail and racketeering that prevented potential small owners from engaging in the production process or drove many start-ups out of business.

However, small-firm privatisation is generally regarded as having been relatively successful and least problematic. Nevertheless, in the former Soviet Union, the process was managed in a way that was not 100% clear. As Åslund writes, it was mostly local regulations that were open to interpretation by local bureaucracy, such as licence renewal, limited rights of shop owners, unclear labour laws, etc. Additionally, ‘small enterprises could not manage without support from the state through subsidies... State officials wanted to “help” small entrepreneurs in exchange for personal “commission”’ (Åslund 2013: 188). This situation created space for stronger and better networked actors to be more successful.

It is important to mention that well into the transition period both rules and roles for different actors were rather unclear in the post-Soviet countries. As Åslund put it, ‘in the post-Soviet chaos ... state enterprises were subject to extraordinary theft, not least through the ongoing spontaneous privatization by incumbent managers’. This supports our argument made earlier, that power relations are a very important factor in explaining the post-socialist transition via the path-dependency approach. Managers and top state officials were in a rather powerful position, having the right information and access to other resources, such as financial ones. Through using the resources, they reinforced their own economic position. In Stark’s words, they successfully applied the right strategy to survive (Stark 1994). As a consequence, ‘the vast unregulated public property inevitably would entice many top officials into corruption’ (Åslund, 2013: 175.)

The large-scale privatisation was much more complicated and continues to give rise to many controversies. The large-scale privatisation was also marked by crime or, at best, by exploitation of the legal vacuum in the field of entrepreneurship, business, and the financial sphere. The preferred method of direct sales created a large scope for corrupt practices and formation of ownership relations between

the owners and the officials who authorised the procedures. Thus, a new economic elite was created among the few who were in power during those years and those to whom the ownership was transferred. This group has amalgamated over time into the new class of property holders who started their careers through accepting various ‘donations’ rather than by using their talents and wits in fair economic competition. The same mechanism gave rise to the group of so-called oligarchs.

Governments had to make many decisions as to what would be protected from privatisation, how the process would be managed, whether to invite foreign investors or support domestic capitalists, etc. Actors with better access to information and financial resources could have moved more swiftly and gained advantage over the general public, including foreign investors. Hellman (1998) also notes that the political debate and logic of privatisation in most post-socialist countries was different than theoretically assumed. He explains that under usual circumstances the privatisation debate would be dominated by traditional short-term losers of the economic transformation such as redundant workers or older, poorer members of society. However, in most former Soviet countries, the momentum was seized by those who used to be insiders in the old regime and thus had resources to become new owners of the privatised enterprises. Many times, as Hellman put it, economic power was seized ‘only to strip their firms’ assets’, or ‘local officials who have prevented market entry into their regions [seek] to protect their share of local monopoly rents’ (Hellman, 1998: 204). Hellman also introduced the term ‘partial reform’, which means that market principles are introduced only to certain areas, while ‘substantial spheres of economic activity still operate according to alternative mechanisms of coordination’, i.e., informal, non-market-based principles (Hellman, 1998: 219). The winners of the partial reform became known as ‘oligarchs’. Although this term has a slightly different meaning in the political science and especially political philosophy literature, in this context, it describes a few people with enormous economic power and close links to the political elite. The main difference from the oligarchy as we know it from Aristotle is that the oligarchs we refer to in the post-socialist countries are not aspiring directly for political power. However, as Aristotle considered oligarchy a bad form of government, the term has a negative connotation in post-socialist countries as well.

On the other hand, Åslund argues that oligarchs are not to blame for the conditions that arose shortly after the fall of the communist regime. Åslund argues that the oligarchs-to-be acted in a rather rational way. They identified opportunities that the contemporary legal and economic conditions opened and used the resources at hand to make the most out of them. ‘The oligarchs stood out as the true *Homo economicus* in a world of bewilderment’ (Åslund, 2013: 202).

Based on the above, we argue that the rise of the oligarchic class in the early 1990s is a result of what, using Stark’s word, we would call the ‘recombination’. Networks, knowledge, experience, and financial means (simply resources) were activated and applied by actors in times of uncertainty. These were the old building blocks that remained as ruins from communist times, and were combined with the new capitalist motivations and formal (i.e., legal) rules to create a recombinant transitional regime. Within a short time, the uncertainty started to decrease, and the development took its path-dependent way: actors

functioned and further developed the inherited patterns of economic governance, which were outside market principles and nurtured corruption.

5. Corruption Spilling over from Economic to State Governance

The post-socialist privatisation contributed to the emergence of the oligarchic class in many countries (although with varying degrees of economic control). Most oligarchs, as we argued, used their previously obtained skills and networks in order to thrive in the new economic and political environment. The combination of informal networks and blurry legal and institutional frameworks thus often led to corrupt practices.

Growing economic power, however, usually calls for political power as well. Economic actors in general and oligarchs in particular attempt to shape and influence legal norms and institutions in their favour so that they can ensure further economic success. Oligarchs who became gradually strong in the respective national economies tend to ‘lobby for weak institutions to preserve their concentrated control over the countries’ large corporations’ (Åslund, 2013: 258). As a result, political power and interconnectedness with politics enable oligarchs to buy the right information at a minimum, or achieve their maximum goals of buying political decisions including legislation and court decisions.

Corruption as an informal institution, a common practice learned in the past is in this way transposed to the political arena of the post-socialist states and hampers the development of democracy. Borrowing the term from the EU integration literature, we could state that it is a classic ‘spill-over effect’, when informal institutions and behavioural norms are spilling over from the privatisation process to democracy building.

The privatisation process was divided into small-scale and large-scale privatisation, depending on the type of assets and the volume of property to be privatised. Table 1 below provides an overview of various privatisation methods applied in post-socialist countries.

The large-scale privatisation was also marked by crime or, at best, by exploitation of the legal vacuum in the fields of entrepreneurship, business, and the financial sphere. The preferred method of direct sales created a large scope for corrupt practices and formation of ownership relationships between the owners and the officials who authorised the procedures. Thus, the new economic elite was created from among the few who were in power during those years and those to whom ownership was transferred. This group has amalgamated over time into the current wealthy class that started its careers through donations rather than through using its talents and wits in fair economic competition. The same mechanism gave rise to the group of so-called oligarchs.

Gradually, the balance of the transferring mechanism shifted. While in the early stage of transformation, the decisive power was with the officials who granted property over assets to selected persons or subjects, the balance has shifted as the latter consolidated their economic positions and became the decisive element that influenced officials through the ‘power of the purse’. Funding of

election campaigns or bribes are the key elements of the power game.

Table 1: Methods of medium and large privatization

Region / Country	Sale to Outside Owners	Voucher Privatization (Equal Access)	Voucher Privatization (Significant Concessions to Insiders)	Management - Employee Buyouts	Other*
<i>Central Europe</i>					
Poland	Tertiary	Secondary	-	Primary	-
Czech Republic	Secondary	Primary	-	-	-
Slovakia	-	Secondary	-	Primary	-
Hungary	Primary	-	-	-	Secondary
<i>South-Eastern Europe</i>					
Romania	Secondary	-	-	Primary	-
Bulgaria	Primary	Secondary	-	-	-
<i>Baltics</i>					
Estonia	Primary	-	-	Secondary	-
Latvia	Secondary	Primary	-	-	-
Lithuania	-	Primary	-	Secondary	-
<i>Former Soviet Union</i>					
Russia	Secondary	-	Primary	Tertiary	-
Belarus	-	-	-	-	-
Ukraine	-	Secondary	-	Primary	-
Moldova	Secondary	-	Primary	Tertiary	-
Armenia	-	Primary	Secondary	-	-
Azerbaijan	-	-	-	-	-
Georgia	-	-	Primary	Secondary	-
Kazakhstan	Secondary	Primary	-	-	-
Kyrgyzstan	-	Primary	-	-	-
Tajikistan	-	-	-	Primary	-
Turkmenistan	-	-	-	-	-
Uzbekistan	-	-	-	Primary	Secondary

Source: EBRD (1997, p. 90)

Some governments tried to implement more transparent or justifiable privatisation methods, such as voucher schemes. These methods were aimed at dispersing property of large companies to citizens. Initially, they virtually succeeded, but these schemes also failed to establish a sound regulatory system where the rights of small shareholders were duly protected. In some cases, the vouchers or ownership rights were concentrated by specialised agents through buy-outs for nominal prices. In other cases, the privatised companies were subject to asset stripping by the top management, leaving the shareholders with ‘dead wood’ or even debts. The massive asset stripping that was a major economic pre-occupation of the 1990s was aided by the lenient bankruptcy procedures that left the minor shareholders unprotected until the main productive assets of the companies were stripped. The term ‘tunnelling’ was invented in the Czech Republic to denote this process. As a result of large-scale asset stripping, bad loans, and similar practices, the governments created various consolidation funds or banks that concentrated the bad debts and used the public funds to cover the debts or even to revitalise the companies.

Thus, we can conclude that neither of the two goals of transition—the creation of private ownership over productive assets and the introduction of democratic governance—was achieved in a satisfactory manner. The private ownership of productive assets was created amidst the transitional chaos, without a proper legal framework, enforcement, and regulatory mechanisms. Moreover, the process was often dominated by fraudulent behaviour, such as asset stripping, or even criminal practices and violence. The process failed to establish a transparent environment for fair economic competition. Moreover, it laid the foundations for further proliferation of corrupt practices in business and politics. Introduction or restoration of the democratic systems of government has been achieved to an even lesser extent. While in most post-Soviet countries, the process ended up in openly authoritarian regimes, in the Central and Eastern European transition countries, it created politically corrupt governments championing the vested interests of oligarchs and private capital over the rights of citizens and the social welfare state.

6. Variations in Transition Results: Exogenous Influence or Path Dependence?

The relationships between corruption, quality of democracy, and market reforms have been shown elsewhere (e.g., Rothstein, 2011; Warren, 2004; in relation to natural resources, see for example Bhattacharya & Hodler, 2010). Admittedly, the links between corruption, oligarchic capitalism, and poor democratic governance are not new, and it is not our point to prove them. However, we attempt to show how the three may be connected via the path-dependent learning process of actors. We argue that it is the recombinant way of privatisation (as a market economy-building process) that nested power in the hands of selected actors, who subsequently used that power in combination with their previously learned practices (corruption) to influence politics so that it serves their interests. Our point is that this process could be seen via the optics of recombinant capitalism building, which also explains the variation across post-communist Europe.

Whether we look at various corruption indices (e.g., Transparency International’s Corruption

Perception Index), democracy rankings (Freedom House, Economist Intelligence Unit, etc.), or transformation of post-socialist states (e.g., Bertelsmann Transformation Index), the difference between the new EU Member States, Balkan countries, Central Asia, and Russia is obvious. As documented in Table 2, the level of democracy that the transitional countries have exhibited recently is relatively low, as none of these countries ended up in the category of full democracies. The new EU Member States and several Balkan States ended up classified among ‘flawed democracies’, while the remaining transition countries—notably the former Soviet Republics—featured much worse. Georgia, Ukraine, and Armenia are classified as hybrid regimes, and the rest of the post-Soviet States (Belarus, Russia, Azerbaijan, and the four Central Asian ‘Stans’) belong to the category of authoritarian regimes.

Table 2 Classification of transitional countries according to the level of democracy in 2014 as captured by the EIU Democracy Index

Level of democracy	No. of countries	% of countries	% of world population	Transitional countries (in descending order of the democracy index)
Full democracies	24	14.4	12.5	None
Flawed democracies	52	31.1	35.5	Czech Republic, Estonia, Slovenia, Lithuania, Latvia, Poland, Slovakia, Croatia, Hungary, Bulgaria, Serbia, Romania, Moldova, Macedonia
Hybrid regimes	39	23.4	14.4	Montenegro, Georgia, Albania, Ukraine, Kyrgyzstan, Bosnia and Herzegovina, Armenia
Authoritarian regimes	52	31.1	37.6	Belarus, Russia, Kazakhstan, Azerbaijan, Uzbekistan, Tajikistan, Turkmenistan

Notes: A total of 167 countries were measured by the index in 2014

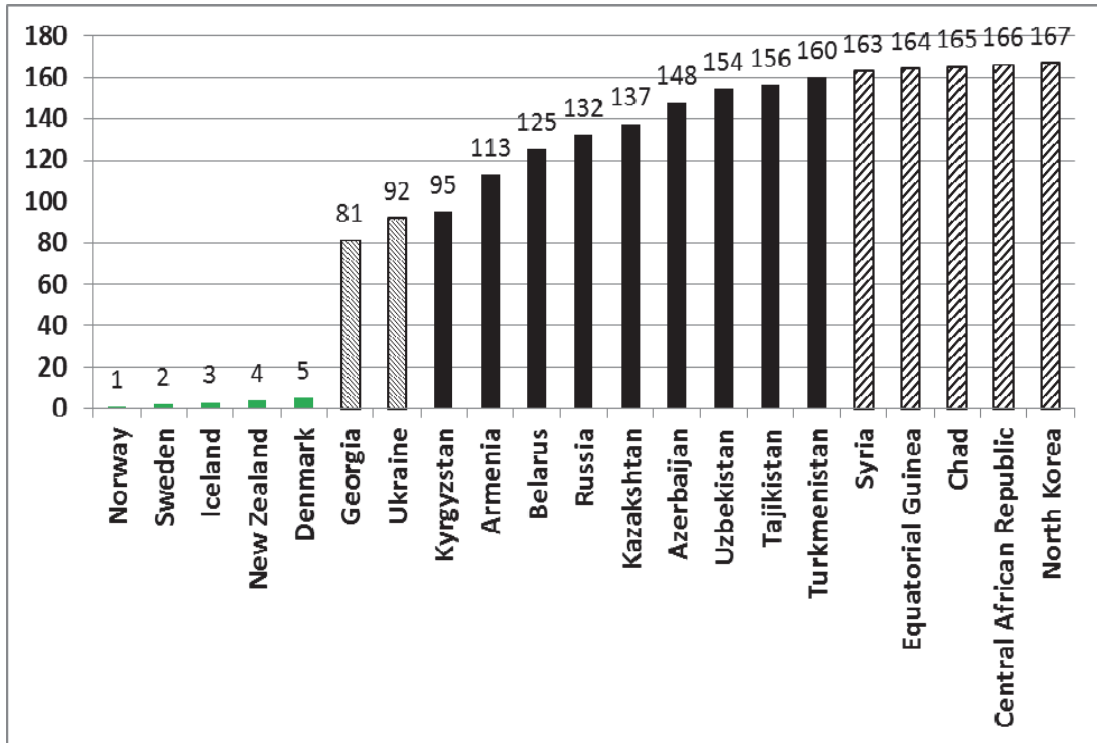
Source: Economist Intelligence Unit, Democracy Index 2014

Figure 1 displays the level of the democracy index for the top five global democracies, the bottom five authoritarian regimes, and selected former Soviet republics. As can be seen, the latter are rather close to the ‘authoritarian end of the scale’.

Consequently, the question is: why did the political development in the transitional world lead to such differentiated and altogether unsatisfactory outcomes? Could this be explained within a path-dependent approach? We argue that, to a certain extent, path dependency plays a role. The communist regime was not the same in all the above-mentioned countries, and the type of communist rule could have had an impact on the way the new regime was institutionalised. On the other hand, the proximity and influence

of the EU is also a non-negligible factor. Below, we will briefly discuss both arguments.

Figure 1 State of democracy in 2014 as captured by the EIU Democracy Index



Notes: The figure shows rankings of countries according to the Democracy Index levels (lower rank means higher level of democracy), capturing the top five in the world, the post-Soviet transitional countries, and the bottom five in the world

Source: Democracy Index 2014, Economist Intelligence Unit

Despite the leading role of the communist party in all its variations, the communist regime did not have the same institutions in all countries. Regardless of some details (such as Czechoslovakia having an office of president, but not the USSR), the important feature is the extent to which internal contestation and interest articulation was allowed. Kitschelt (1995) introduced one of the best-known typologies in this regard. In his seminal work, he introduces three types of communist regimes.

The first type is ‘patrimonial communism’, which, according to Kitschelt, allowed very little if any contestation for the high ranks inside the communist party. Popular interest articulation was not welcomed and the level of ‘rational-bureaucratic institutionalisation’ was also low. In such an environment, it is then natural that the opposition was more often than not repressed. Rarely was it

‘co-opted into the patronage system’. Kitschelt stated that most south-eastern European countries and almost all former Soviet countries experienced this type of communist regime (Serbia, Romania, Bulgaria, Russia, Ukraine, and Belarus). Additionally, Kitschelt stated that the most extreme cases were the former Asian republics of the Soviet Union.

The second type of communist system is bureaucratic-authoritarian communism. Kitschelt stated that within this system political contestation and interest articulation are not as repressed as in the first one; however, they are ‘narrowly circumscribed’, while the level of ‘rational-bureaucratic institutionalization’ is high. Usually, such a system ended by imploding as the ‘rule-governed bureaucracies were not capable of rapid pre-emptive action’. The practical consequence was that the old ruling class lost its negotiating power, and it more easily accepted the new formal institutions. However, Kitschelt did not examine the role of the informal institutions, i.e., patterns of behaviour that the old elite could have transferred to the new regime. Examples of these communist regime types were, among others, the Czech Republic, Slovakia, and the former German Democratic Republic.

The third type of communist regime is called ‘national or national consensus communism’. In comparison to the previous ones, this type allowed ‘intermediate levels of contestation and interest articulation’ and ‘instituted intermediate levels of bureaucratic professionalism’. The party leaders used popular desire to maintain national autonomy from the Soviet hegemony. On the other hand, they had to deal with local elites that had rather strong ties with the Catholic Church and used the inter-war narratives to maintain their role in society. The communist elites granted a ‘modicum of contestation and interest articulation in exchange for compliance with the basic parameters of the system’, concluded Kitschelt.

We would argue that the degree of internal openness of a communist regime—i.e., its space for internal contestation and way of treating opposition—had a direct impact on the possible extent of external actors’ influence after the fall of communism. We point to the fact that opposition forces were variously prepared to seize power and let themselves be influenced by external forces, according to the communist regime type. In the following part of this section, we describe the influence of the strongest external force at the time the communist regime fell: the European Union. We then show that the most authoritarian regimes among the former Soviet Republics arose through high-ranking officials of the Soviet regime (Communist Party leaders, KGB officials, etc.) becoming leading figures of the newly independent republics and entrenching their power over time, leading to authoritarian regimes with flawed or no elections.

6.1. The European Union Influence

There is a consensus about the importance of the European Union (or, the European Communities, at that time) for democracy promotion in post-socialist Europe. Four Central European states, known also as the ‘Visegrad countries’, signed the EU Association Agreement already in 1992. By mid-1995, the Baltic trio, Romania, and Bulgaria had also signed the agreement. Although the main features of the

agreement related to easing trade and decreasing barriers, it also included political aspects that aimed for broader integration of Central Europe with the EU, including harmonisation of legislation.

However, we shall take a step back for a while. At the time the communist regimes were collapsing in various countries, the West, Europe, and the USA, did not have a unified strategy or vision of what they should do in relation to the East. Many arguments against any help to Eastern Europe were on the table. Firstly, some argued that financial aid to post-socialist countries would decrease the amount that would go to Africa or to other, still-less-developed regions than Eastern Europe. On the other hand, the Western world still remembered migration waves after various uprisings (Hungary in 1956, Czechoslovakia in 1968, Poland in 1981) and was thus afraid of the coming massive waves of migration.

On the other hand, to many countries, regime change opened an opportunity for ‘the dream of return to Europe’ (Åslund, 2013: 303). Nordic countries, as Åslund writes, took care of the Baltic States, while Germany—and especially its Chancellor, Helmut Kohl—was an advocate of integration of the Visegrad countries. South-eastern Europe, however, ‘was left in a limbo, whereas Russia with the rest of the former Soviet Union was left out in the cold’ (Åslund, 2013: 301). The European Union provided help in economic and technical areas, but demanded that democratic norms of governance be applied in the countries receiving help. Russia, however, presented a different case. For the EU, it was too big a country, and the consensus was that Russia had no prospects of becoming an EU member any time soon. As Åslund describes in a more detailed way, nobody truly cared about Russia and its satellites. Despite ambitions, Turkey’s financial situation was too poor for it to play an important role in countries such as Azerbaijan or Central Asia. China remained rather passive, and the United States under the administration of George Bush senior had no will to help its former enemy that was literally imploding.

6.2. Path-dependent development in the former Soviet republics

The mediating effects of the EU were much less applicable to the former Soviet republics (with the exception of the Baltic States that joined the EU). As shown in Table 2, the remaining 12 former Soviet Republics can be characterised according to the state of their democracies, whether hybrid or authoritarian regimes. By and large, both the authoritarian and hybrid post-Soviet regimes share a common feature of historical development: soon after the transitional turmoil, in the early 1990s, power was seized by high-ranking officials of the former Soviet regime who were able to use their former knowledge, networks, and information, and thus were best positioned to harness the economic and political opportunities provided by the transitional chaos. In Box 1, we provide a brief account of these developments in selected authoritarian regimes to highlight our argument.

Finally, we only briefly mention the notorious cases of Belarus and Russia, which complete this group of authoritarian countries. While President Lukashenko of Belarus stays on, Russia has allowed for a repeated controlled transition of power between Presidents Putin and Medvedev of the same elite group.

Although all 12 post-Soviet countries examined in our paper shared the original path of development whereby political power was seized early in the transition by former high-ranking Soviet officials, the

Box 1 How the post-Soviet authoritarian regimes came about

In Turkmenistan, the first Turkmen leader, Saparmurat Niyazov, known as Turkmenbashi, served as the First Secretary of the Turkmen Communist Party from 1985 until 1991. He served as President (later President for Life) of Turkmenistan from 1990 until his death in 2006. He was succeeded by Gurbanguly Berdymukhamedov, who became acting President following the death of Niyazov and the imprisonment of his constitutionally appointed successor, Atayev. Berdymukhamedov has been serving as President since February 2007 elections.

In Uzbekistan, Islam Karimov was the Communist Party's First Secretary in 1989. He became President of the Uzbek Soviet Socialist Republic in March 1990 elections, declared Uzbekistan an independent nation in August 1991, and subsequently won Uzbekistan's first presidential election in December 1991. In 1995, Karimov extended his term until 2000 through a widely criticised referendum. He was re-elected with 91.9% of the vote in January 2000, with a 91% majority in 2007 and re-elected again with a 90% majority through another highly criticised ballot in 2015.

In Tajikistan, Emomali Rakhmon was elected a people's deputy to the Supreme Council of the Tajik SSR in 1990. During the civil war in Tajikistan, the Supreme Soviet abolished the position of president and Rakhmon, then the Speaker of Parliament, became the head of government. In November 1994, Rakhmon was elected to the newly created post of president of Tajikistan. In 1999 he was re-elected with 97% of the vote for a seven-year term. Furthermore, in June 2003, a referendum allowed him to run for two more consecutive seven-year terms after the expiration of his term in 2006. He was re-elected in controversial November 2006 elections with 79% of the vote and again in 2013 elections with 87% of the votes.

In Kazakhstan, Nursultan Nazarbayev has served as President since 1991, when the country declared independence from the Soviet Union. In April 2011, he was re-elected to another five-year term, receiving 95.5 % of the vote (with 89.9 % participation of registered voters).

In Azerbaijan, Heydar Aliyev was a high-ranking official of the KGB who remained in Moscow after his forced retirement in 1987. He opposed the Soviet reassertion of control in Baku in 1990. He officially renounced his membership of the Communist Party of the Soviet Union and left Moscow for Nakhichevan in Azerbaijan. He was subsequently elected as a deputy to the Supreme Soviet of the Azerbaijan SSR. He was elected a Chairman of the Supreme Soviet of the Nakhichevan Autonomous Republic in 1991. Following the war for Nagorno-Karabakh, Aliyev was elected a Chairman of the National Assembly of Azerbaijan in 1993, also assuming temporary presidential powers. He was elected President in October 1993. He stood down from the presidency in late 2003, but appointed his son Ilham as his party's sole presidential candidate. In October 2003, Ilham was elected President with 76.8 % of the vote. He was re-elected in 2008 with an 87% majority, while opposition parties boycotted the elections. In a constitutional referendum in 2009, term limits for the presidency were abolished.

Source: Internet and press media

qualifying difference between the authoritarian regimes and the hybrid ones came at a later stage: while the authoritarian regimes managed to entrench their political positions through various anti-democratic moves and remained in power for decades (as documented above), the hybrid regimes were characterised by various revolutions that shook the incumbent leaders and eventually replaced them by new establishments. Though the hybrid regimes are less culpable on democratic grounds, none of them managed to deliver a western-type democracy—i.e., either a full or flawed democracy in terms of the EIU Democracy index.

Typically, the revolutions turned into a series of regular events that eventually delivered yet another oligarchic government. **Kyrgyzstan** can serve as the most pronounced example of this path: the first Tulip Revolution of 2005 that ousted the post-Soviet President Akaev was followed by several ‘palace revolutions’ that were often concentrated in the centre of the capital Bishkek, and reportedly were staged to an extent by the unemployed poor (*mardikors*), who were hired along the main street by the oligarchs competing for political power. Other countries in this group followed suit with a similar set of events, i.e., the Orange Revolution of 2005 and the recent Maidan protests in Ukraine, the Rose Revolution of 2003 in Georgia, or the very recent attempt for a yet-unnamed colour revolution in 2015 in Armenia. Thus, although the hybrid regimes are characterised by the transition of political power among various establishments achieved through the combination of revolutions and elections, they lead uniformly to seizure of power by oligarchic governments whose main agenda is using the state to support their own economic interests.

This vicious circle in hybrid regimes could in principle be removed through democratic elections. The main obstacle is that the new elites that could effectively compete for power cannot form anymore, due to the high concentration of the property of productive assets among the few, continued impoverishment of the rest of the population, and the infiltration of the state enforcement and coercive apparatus by the property holders who can use it against their eventual political rivals.

Finally, the last important common feature of the hybrid regimes that we would like to highlight is their relatively high level of international economic openness, typically characterised by opening of their privatisation procedures to foreign capital, free currency convertibility, visa-free regimes, etc. Kyrgyzstan, Georgia, and, to an extent, Armenia share these features. Once the countries are highly penetrated by international actors (foreign states or capital groups), they are not prone to switch to openly authoritarian regimes anymore, as authoritarianism does not feature well in the international arena. However, there are other approaches that can deliver the domination of the property holders over the propertyless without the need to resort to an openly authoritarian regime, in the next session, we describe the case of Georgia, where developments effectively took such a turn. We also argue that, based on certain observed similarities, Ukraine is likely to follow suit.

6.3. The cases of Georgia and Ukraine – liberalisation, social deinstitutionalisation, and coercion

In this section, we illustrate the ‘third way’ of property holders exercising power over the propertyless that has been applied in Georgia during 2003–12. We also argue that, in order to understand recent and potentially future developments in Ukraine, one has to revisit the events that have recently unfolded in Georgia. It is remarkable that the current Ukrainian government consists of many foreigners—nationals of the United States, Latvia, and notably former citizens of Georgia. The latter held high government posts during the term of President Saakashvili, who served as the Georgian president during 2003–12. In Georgia, like in the other post-Soviet countries, political power was initially seized by a high-level official of the Soviet government—Eduard Shevardnadze, who had served as the Minister of Foreign Affairs of the USSR. Following the brief leadership of Zviad Gamsakhurdia, Shevardnadze became the President of Georgia soon after the fall of communism, and served through more than a decade of independence and economic decay. His government, perceived as a corrupt post-Soviet one, was swept away by the Rose Revolution led by the young and pro-Western Mikhail Saakashvili, an admirer and later ally of the United States. Following his promises to eradicate corruption, attract foreign investment, and boost economic growth and prosperity, the new President embarked on the approach. Thus, the Georgian ‘package’ of 2003–12 was characterised by the following key components: (i) extremely libertarian market reforms, (ii) social de-institutionalisation, and (iii) an increased level of abusive coercion through state police and prosecution.

What were the reasons behind this development? We hypothesise that the driving forces behind the Georgian regime change in 2003 included broader geopolitical factors, such as the need to open up the route for export of oil and gas from Azerbaijan to the west.¹ However, the geopolitical story is not the main focus of our analysis. Rather, we try to illustrate yet another path that leads to the concentration of private ownership and suppression of social rights, while maintaining the multi-party electoral system.

(a) The new privatisation campaign led by the Saakashvili aide Kacha Bendukidze under the motto ‘everything is for sale except consciousness’ transferred the remaining interesting and productive assets from state ownership to private hands, including to foreign owners who were attracted by the strong liberalisation of the economy and its opening. The reforms included large-scale deregulation, removal of state licences, reduction of the income tax rate to a flat 12%, and cutting customs rates. The liberal reforms earned Georgia several prizes for ease of doing business, and the World Bank praised the country as one of the world’s top economic reformers (the country jumped from 137th to 11th place on the ‘ease of doing business’ indicator).

(b) The extreme economic liberalisation was accompanied by the revamping of the social welfare state that brought about abolishment of many important social institutions at an unprecedented scale by international standards, which leads us to denote the Georgian case as social deinstitutionalisation. The policy package included the abolishment of public employment services and liquidation of the insurance-based unemployment benefit system and its replacement by income-tested targeted social assistance. The latter move violated the rights of the participants in the social insurance scheme and limited access to social benefits only to the neediest. Further steps included the abolishment of the state

employment fund and the liquidation of active labour market measures. The Ministry of Labour and Social Affairs was merged with the Ministry of Health, following which the labour agenda was effectively dropped from its radar. The State Labour Inspection was cancelled too, thus making it impossible to check the conditions of the workers and protect their health and safety. The Labour Code was simplified to the extent that it could barely protect basic workers' rights and reduced them to the standards of the pre-industrial era. For example, the labour contract can be concluded in oral form, firing is extremely easy, the burden of training is largely placed on the shoulders of employees, etc.

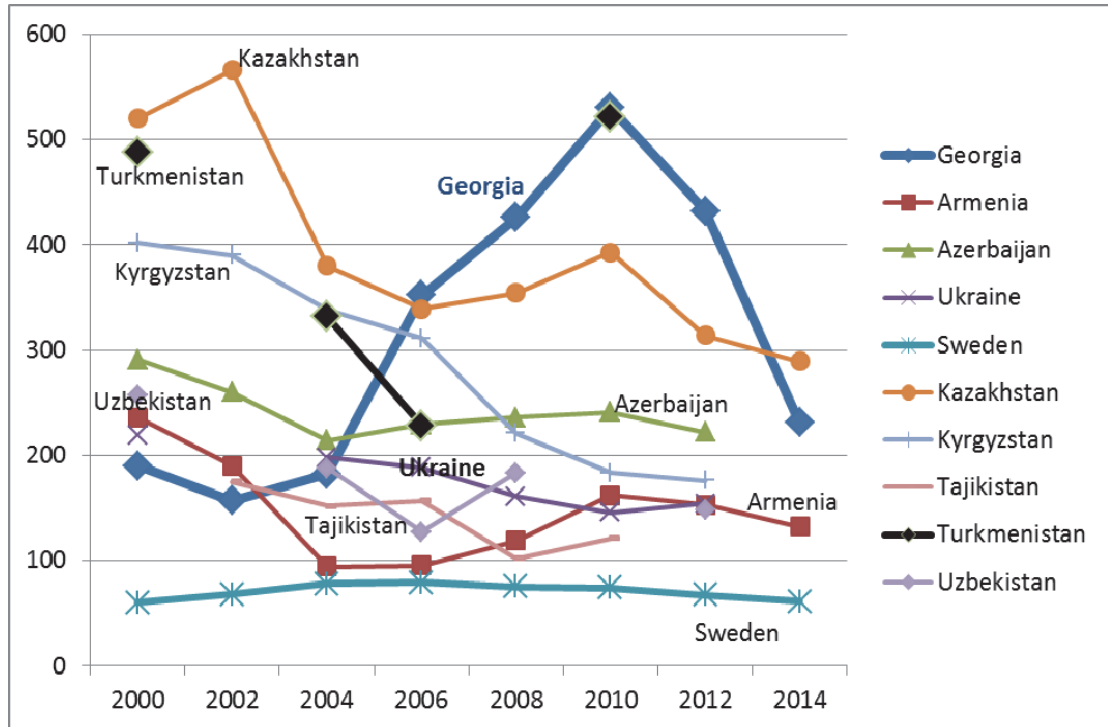
(c) It is noteworthy that while social institutions were undergoing large-scale decay and destruction, law enforcement institutions, such as the police and prosecution, were being modernised, newly equipped, and beefed up. This move was justified by the need to fight the rampant corruption and criminality that developed during the Shevardnadze era. Initially, the new measures succeeded in eliminating the high criminality and suppressing the low-scale corruption (such as bribe taking by the police, customs, or various state organs). Following the Rose Revolution, the incarceration rates in the country started to climb sharply to reach an unprecedented level of 520 per 100,000 inhabitants toward the end of Saakashvili's term in 2012. As can be seen from Figure 2, this development was rather peculiar in the whole post-Soviet region in terms of dynamics and level (the coercion rates of above 500 belong to the highest levels in the world, according to the World Prison Report). Unfortunately, the initial success in the fight against criminality and petty corruption has gradually transformed into a broad drive aimed at stifling potential opposition and economic competitors.

Thus, the lesson from the Georgian case study tells us that removal of social protection, impoverishment, and the threat of (or actual) abusive coercion can effectively substitute for the control exerted over the people by openly non-democratic authoritarian regimes. Furthermore, after a decade of social deinstitutionalisation, it is virtually impossible to re-establish social institutions and to restore the level of social protection to its former level, due to the loss of institutional skills, loss of personnel, and, notably, the fiscal pressures that limit the scale for manoeuvre of current governments across the globe.

Finally, we argue that the recent developments in Ukraine resemble the case of Georgia in many respects. Firstly, the 'conditions setting the initial contingencies' are very similar. While the nation is divided between pro-Russian and anti-Russian camps, a patriotic war against Russia takes place. The revolution swept from power the pro-Russian President and brought into office a pro-western liberal government that embarked on a set of liberal economic reforms. Fiscal austerity combined with the declining level of social transfers leads to impoverishment of the population, notably among the vulnerable groups and the workers in certain public sectors, such as healthcare, education, and social work (one of the first economic reforms proposed by the new government included wage cuts in education and healthcare).

Secondly, the presence of former Georgian officials from Saakashvili's team in the current Ukrainian Government and official structures is also noteworthy. Notably, it includes Mikhail Saakashvili himself, who became the Governor of the strategic Odessa Region of Ukraine (amidst political turmoil, his name

Figure 2 Development of incarceration rates in Georgia and other selected countries since 2000 (adult inmates per 100,000 population)



Source: World Prison Brief at <http://www.prisonstudies.org>

has been mentioned by the press among the potential candidates for the PM's office) and other former Georgian officials who were responsible for the implementation of the three key elements we identified (i.e., privatisation, social deinstitutionalisation, and coercion). On the social side, the Minister of Health of Ukraine, Alexander Kvitashvili, is the former Minister of Labour and Social Protection of Georgia, who participated in the implementation of social deinstitutionalisation during Saakashvili's term. As for the institutions of prosecution, the Deputy General Prosecutor of Ukraine, Davit Sakvarelidze, has served as the General Prosecutor of Georgia during Saakashvili's term, while the General Prosecutor of Georgia from that era, Zurab Adeishvili, holds a high-level advisor post in Ukraine. For the privatisation component and liberal economic reforms, Kakha Bendukidze joined the Advisory Board of the National Reforms Council of Ukraine.

Thirdly, it is noteworthy that many key positions in the current Ukrainian government are held by foreigners experienced in economic liberalisation and social deinstitutionalisation. The President of Ukraine, Petro Poroshenko, created the National Reforms Council to support state reforms. Its Advisory Board was manned by Kakha Bendukidze and other CEE liberal reformers (Valdis Dombrovskis,

former Prime Minister of Latvia; Leszek Balcerowicz, former Deputy Prime Minister and Finance Minister of Poland; and Ivan Miklos, former Finance Minister of Slovakia). Last but not least, the Ukrainian presidency is occupied by the oligarch Poroshenko, while several former Central European politicians experienced in large-scale privatisation and liberal economic reforms hold ministerial posts in Ukraine. Following the death of Bendukidze in 2008, Aivaras Abromavičius of Latvia took on the lead role in Ukrainian economic reforms as the Minister of Economy.

The massive engagement of foreigners among the top brass in Ukraine represents a qualitatively new development in the transitional arena. From the institutional point of view, the Ukrainian case can be viewed as another example of path-dependent development, i.e., an ‘institutional *bricolage*’ based on the repetition of learned practices by the same actors, spilling over from one country to another under very similar conditions. One of the likely justifications for such an approach seems to be the hope that foreigners have no stake in the corrupt domestic business environment and thus should be able to carry on reforms in an impartial and technocratic way. However, the approach has two problems. Firstly, in the current globalised economic environment, the pure fact of holding a foreign citizenship does not guarantee impartiality. Secondly, the credit of the engaged actors is undermined by their own feeble records in terms of handling corruption in their home countries.

The important roles of the actors in the institutional bricolage and their previous experiences with the system imply that Ukraine may be heading towards the ‘Georgian package’ involving the trinity of progressive liberalisation, social deinstitutionalisation, and increasingly abusive coercion. Ukraine in the future may prove to be another showcase of this newly institutionalised approach that allows for securing the economic and political position of selected elites against their rivals and over the propertyless population without the need to resort to an openly authoritarian state. That is the lesson from the post-2003 development in Georgia, and, while it may be too early to take a similar account of recent developments in Ukraine, the path-dependent development allows us to foresee a similar outcome to that in Georgia. While the system eventually allows for certain cessation of power within or among the top elites represented by certain oligarchic groups, after a decade of policies based on the three identified elements, the liberal grip on economic and social life is consolidated to an extent that renders improvement in social protection and/or resurrection of the underpinning social and labour market institutions practically impossible.

7. Conclusions

Path dependency has long been criticised for not being able to address institutional change. David Stark (1996) adjusted the traditional, rather deterministic approach of path dependency by developing his concept of recombination. In our paper, we attempted to step further in this direction and reconcile Stark’s approach with the role of actors in causing historical changes and setting future developmental paths.

When explaining the change, the traditional path-dependency approach uses the concept of critical juncture that is usually established through an exogenous shock. Our approach attempts to shed light on this black box. If we accept the fall of communism as the critical juncture in the historical development of Eastern Europe, and look at the subsequent developments in various countries, we can see that ‘something has happened’ at the critical juncture that set the diverging paths for future decades.

In our paper, we argue that it is the recombination of the new formal institutions (legal norms, private property ownership, electoral rules) with the old informal practices (corruption, power relations, networks, etc.) that creates the critical juncture. Subsequently, there are key actors who, by applying their resources and capacities (in essence, path dependency), set the future path. They, metaphorically speaking, filled the new forms with the old substance. The two, formal institutions and informal practices (or the form and the substance), then subsequently shaped and reinforced each other, and, according to their respective strengths, lead to various forms of capitalist pseudo-democracies.

The stories of post-Soviet authoritarian countries in general, and the illustrative case of hybrid regimes, notably Ukraine and Georgia, are interesting. Due to the ‘colour revolutions’, the latter obviously do not fit the linear, singular examples of institutional developments (such as those in Central Europe or Central Asia). However, the same path-dependent mechanisms are at play in these countries: economic elites using their resources and power relations to influence the formal institutions to fit their interests.

In our paper, we attempted to show that the recombinant approach can explain why development in post-socialist Europe is truly path dependent, despite a seemingly equal starting line and different positions nowadays. Unfortunately, the recombination gave rise to oligarchs, and corrupt practices made their way into the economics and politics of all the states in question. As we noted above, none of the countries achieved full democracy, with even the best performers being labelled as flawed democracies. This only confirms that social change is relatively slow and that path dependency remains a relevant approach for understanding it.

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Notes

¹ The Azeri southern route that competes with the Russian northern routes was blocked by Russian allies Armenia and Iran. Soon after the switch of government in Georgia from the pro-Russian Shevardnadze to the pro-western Saakashvili, the construction of pipelines through Georgian territory started. The Baku-Tbilisi-Ceyhan pipeline was opened in 2005 (the following year Azerbaijan recorded a nominal GDP growth of 34 %).

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