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Political Alternation, Regardless of Ideology, Diminishes Influence Buying

Lessons from Transitions in Former Communist States

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The Relationship between Alternation in Power and Governance

In many countries, for many firms, it is more profitable to pay off influential politicians to obtain property rights protection à la carte than to rely on existing rules of the game, or to support new institutions that would provide general protection of property rights. This is particularly likely to be the case in the early stages of economic liberalization and the transition to democracy, when state institutions and legal systems are too weak to check executive power, legal boundaries on corruption are not well-defined, and institutions to protect private property rights may be undeveloped. What factors can make influence buying less profitable? The most direct way to break the grip on state power of private interests is through the alternation of officeholders with new political players. Businesses often have “dedicated” relationships with specific political parties or politicians, but if “their” party or leader loses power, businesses’ investments in influence may be wasted, since the new officeholders will not be beholden to them and may even punish them. It is true that when businesses expect political turnover, they may respond by trying to influence the entire political spectrum of parties. But attempting to influence all political players is prohibitively costly if there are many parties with widely different political ideologies.¹ In that case, the most successful strategy for influence seekers would be to accept more transparent and equitable rules of competition and checks on arbitrary state action—a *rule of law*.

This view on what promotes good governance contrasts sharply with the arguments put forward until now, which attribute differences in the quality of governance that have emerged among the initially quite similar postcommunist countries to the differences in duration of prior communist rule, in religion, or in income level.²

Although the importance of alternation in powerholders has generally gone unnoticed, even casual observation suggests that political turnover has been a healthy development for governance in Eastern Europe. In the first round of free elections in Eastern European countries, center-right parties often won; but a few years later, reformed communist parties unexpectedly returned to power in Lithuania, Poland, Slovenia, and Hungary. Despite what many feared then, the countries that switched from right-wing to left-wing coalitions were able to keep key reforms intact. Instead of putting democracy in jeopardy, these orderly transitions between political parties of different ideology gave an air of stability to the new democracies, entrenched the democratic transition, and—we argue—improved governance. In contrast, countries that did not experience an alternation in power generally fared much worse—for example, Serbia under Slobodan Milosevic, Belarus under Aleksander Lukashenko, and Uzbekistan under Islam Karimov. In Russia, limited alternation in power allowed the business groups that had captured the state under Boris Yeltsin to retain (with a few exceptions) their privileged position and to remain successful at buying influence under Vladimir Putin. This absence of power alternation and the lack of even a credible opposition party have had a negative effect on all aspects of governance in Russia.

As we show below, we distinguish two groups among the twenty-seven transition economies: those with frequent power alternations and generally good governance, and those with few alternations and generally poor governance. In the latter case, entrepreneurs who have invested in influence with the party in power may have an immense stake in the maintenance of the existing regime; thus low political alternation in the past may contribute not only to poor governance, but also to actions that make future political alternation less likely. Several of the postcommunist countries in Central Asia, Azarbaijan, and Ukraine until recently fall into this category.

Empirical Analysis

We define two types of political alternation in the postcommunist countries: leadership alternation and ideological alternation. Leadership alternation means a personnel change in the control of the executive, whether or not the leader is from the same party as his predecessor. In a presidential system, such as Russia, leadership alternation involves a change in the president, such as the change from Boris Yeltsin to Vladimir Putin. In a parliamentary system, such as the Czech Republic, a leadership alternation involves replacement of one prime minister (and governing coalition) by another. In contrast, ideological alternation, means a turnover of power across parties or coalitions with different ideologies, as when a social democratic government gives way to a right-wing coalition.³ In the transition countries, almost all ideological alternations to date have been between center-right and center-left governments.

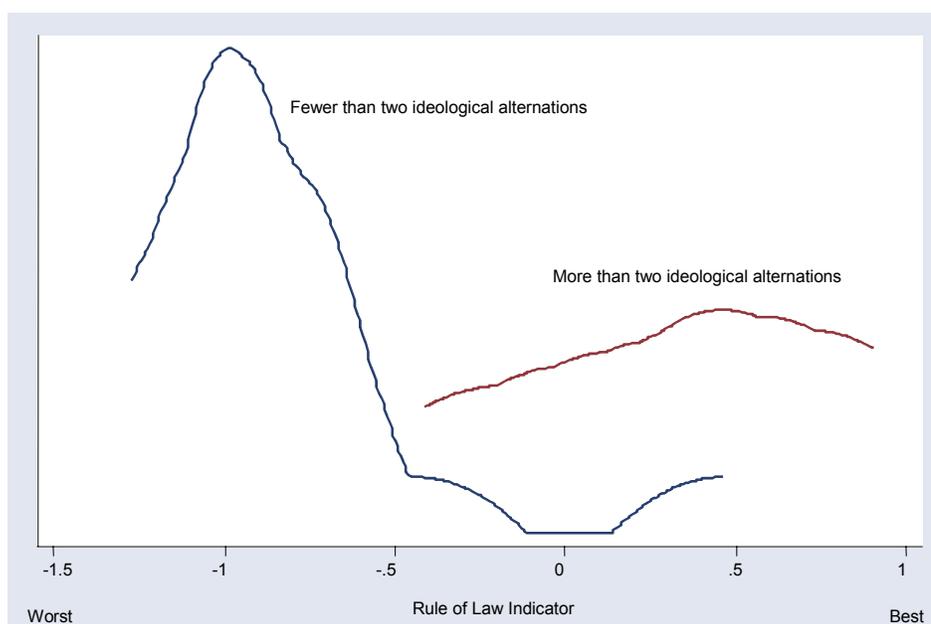
By 2002, the mean number of cumulative leadership changes in the transition economies was 2.2 and the median was 2.0. This means that, on average, each transition country experienced about two personnel changes in the most powerful political post between 1990 and 2002. The largest number of leadership changes (five) occurred in Estonia and Poland; no leadership changes took place in Kazakhstan, Turkmenistan, and Uzbekistan. By 2002, the mean number of ideological changes was 1.8 and the median was 1.0. The largest number of ideological changes (four) occurred in Bulgaria, Hungary, Lithuania, and Poland; there were no ideological changes in Belarus, Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan.

To quantify quality of governance, we used two indicators calculated by Kaufmann, Kraay, and Mastruzzi: control of corruption, where corruption is defined as the exercise of public

power for private gain, and rule of law, defined as the extent to which agents have confidence in, and abide by, the rules.⁴ Both measures are calculated through a complicated process that takes a weighted average of all the existing widely recognized governance measures, including those published by Transparency International, the Global Competitiveness Survey, and Gallup International. The indicators for control of corruption and rule of law measure similar but not identical aspects of governance. There are a number of cases in which a deterioration in the rule of law measure was accompanied by an improvement in the control of corruption measure, or the reverse. For example, between 2000 and 2002, the rule of law score declined in Croatia and Ukraine, but the control of corruption score improved.

Both governance measures cover the period 1996–2002 and are calibrated in such a way that the world average in each year is zero. In 2002, for the transition countries, the average values of the control of corruption and rule of law indicators were -0.43 and -0.32 , respectively. These average values indicate that postcommunist countries performed worse than the world averages. However, large differences exist among the transition countries. In 2002, the top two transition countries in terms of control of corruption were Slovenia and Estonia, with values of $+0.9$ and $+0.7$ respectively, whereas the two worst-performing countries were Tajikistan and Turkmenistan with values of -1.2 and -1.1 respectively. For comparison, in the same year, control of corruption was estimated at $+1.8$ in the United States, $+0.8$ in Italy, -0.4 in Turkey, and -1.4 in Nigeria. The span in performance among postcommunist countries almost matches that of the world as a whole. But transition countries are not randomly distributed across the spectrum. Those with a greater number of political alternations (whether measured by leadership or ideological alternation) generally had better governance scores. In 2002 the average rule of law score in countries that had experienced more than two ideological alternations was $+0.34$, whereas in countries with fewer than two such alternations it was -0.84 . Figure 1 shows that the two distributions are strikingly different: Almost all transition countries with fewer than two power changes had worse rule of law than almost all countries with more than two power changes. The same is true for control of corruption.

Figure 1. Distribution of Rule of Law Indicator in Postcommunist Countries (2002)



To test whether the relationship between alternation and governance is robust, we run regressions. Quality of governance (two indicators) are the dependent variables, and cumulative number of leadership (or alternatively, ideological) alternations are treated as an independent variable. We control for the type of political regime in power (center-right or center-left), per capita income in 1990, cumulative years of war since the onset of the transition, dependence on exports of oil and natural gas, and membership in the former Soviet Union. We include these other variables to check whether the relationship between cumulative political alternation and governance remains despite the introduction of other possible covariates of governance. We find that political alternation of either type “survives” (that is, it remains statistically significant) in all formulations. On average, one additional ideological alternation is associated with an increase in the rule of law score by about 0.25 in the pooled regression and by 0.11 in the country effect regression (these are regressions in which we controlled for unobserved and specific country effects). The first is equivalent to an improvement from the level of Eritrea to that of China; the second from China to Romania. Generally speaking, the effect of alternation is stronger for rule of law than for control of corruption. Fixed-effect regressions display smaller coefficients, which implies that unspecified country characteristics still do matter. We also find that the type of political regime under the democracy (center-left or center-right) is not an important factor in governance in any of the regressions.

The results show that past cumulative alternation is a strong predictor of current governance regardless of the duration of a country’s history of authoritarian rule and communism. The effect of alternation cannot be explained by the fact that a country belonged to the former Soviet Union, because the effect holds equally in both former Soviet republics and other countries. It cannot be explained by the dominant religious affiliation or by the level of education of the country: introducing religion and education as controls does not change our qualitative results. The effect of cumulative alternation is, however, consistent with the fact that past cumulative alternation raises *expectations* of future turnover, and greater expected turnover *lowers* the expected return to investing in influence.

Conclusions and Policy Implications

In many countries today, paying off influential politicians (“investing in influence”) in exchange for property rights and other privileged protection by government is more profitable for many firms than relying on, or building institutions for, the protection of rules applicable to all—a rule of law. But political parties cannot deliver on their promises when they lose power. If political alternation happens frequently enough, the expected returns on investing in influence decline, and eventually fewer people engage in this form of influence seeking.

Democracy and alternation in power play a key role in creating conditions under which the implicit contract between the politicians and the bribers cannot be executed. In the transition economies, alternation in power appears to have sent a powerful signal to politicians and to those who sought to invest in influence. Ukraine today provides a vivid example of both the importance of influence buying and the threat that electoral change represents to the interests of those who were buying influence in the past.

This article presents evidence that frequent changes in power do not cause politically detrimental instability or logjams in the decision-making process, but rather are associated

with improvements in governance. It may be recent political developments, not historical and geographic factors, that explain much of the governance problems of postcommunist countries. Contrary to what was thought at the time, political alternations that took place in the early 1990s in several Eastern European countries, when former Communists came back to power on a groundswell of popular disenchantment with “shock therapy,” were a fortunate development for governance in those countries.

But do these conclusions mean that frequent changeovers are desirable, regardless of how they occur? Clearly not: Were frequent alternations to occur unconstitutionally (for example, through coups), governance would not be helped. Extralegal changes weaken institutions and create an incentive for the ruling group to loot as much as possible while in power. When the time horizon is short and opportunities to steal are many, it is rational to steal. This is, unfortunately, the experience of many African nations. However, frequent alternations within an emerging democratic system are likely to produce very different results than alternation under a series of unstable dictatorships. Thus, the conditions under which political alternations can be expected to improve governance are present when democracy has been achieved but powerful interest groups persist and there is no widespread conviction that the formal democratic rules will be respected by the incumbents. These were exactly the conditions existing in most postcommunist countries in the 1990s and in some Latin American nations during successive democratization waves. Perhaps at some future time these conditions might exist in the Middle East, too. ■

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¹Although Mikhail Khodorovsky—the former owner of YUKOS, one of Russia’s largest companies—who apparently had politicians of various parties in his pay, illustrates that this is not a wholly improbable strategy.

²For the view that legal tradition “explains” quality of governance, see Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, “The Quality of Government,” *Journal of Law, Economics, and Organization*, vol. 15, no. 1 (1999), pp. 222–79; for the view that governance in postcommunist countries reflects underlying economic factors (for example, income) and history, see Daniel Treisman, *Postcommunist Corruption*, unpublished manuscript, University of California, Los Angeles, Department of Political Science (2002); for the view that presidential systems abet corruption, see Jana Kunicova, *Are Presidential Systems More Susceptible to Political Corruption?*, unpublished manuscript, Yale University, Department of Political Science (2001).

³We use here the matrix of ideological affinity that places political parties on the left-right axis depending on their attitude toward economic policy.

⁴See Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi (2003), “Governance Matters III: Governance Indicators, 1996–2002,” World Bank Policy Research Working Paper 3106, Washington, D.C.: World Bank.