

Post-Communist Transition as a Critical Juncture: Long-term Impact of Checks and Balances During Market Reforms

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Quarter of a century after market reforms, countries of the former Eastern Bloc exhibit vastly different economic and political institutions – from robust market democracies to autocracies with oligarchy-dominated economies. We trace these differences to the political environments in the transition time of the early 1990s. Back then, restriction of democracy and suppression of checks and balances were considered as acceptable strategies to overcome ex ante political constraints to a radical reform, and to protect new institutions and policies from populist backlash. However, such insulation of reforms from the society had caused a representation vacuum that was filled by narrow interests inimical to the inclusive institutions of market democracy. Unopposed post-Communist oligarchies favored extractive institutions serving the elites and obstructing economic development. Hence “plurality” (Acemoglu, Robinson, 2012), i.e. the breadth of social representation, was a sorting factor at the critical juncture of post-communist transformations, leading to qualitatively different institutional regimes of inclusive or extractive types. Such regimes sustained themselves thereafter in, resp., virtuous or vicious circles, exhibiting long-term legacies (Kotkin, Bessinger) of transition strategies.

We take the above conjectures to an empirical test by relating institutional quality of 28 transition economies in the observation period from mid-1990s until the present time to the “plurality” of market reforms, measured by the number of “veto players” in respective countries in the early 1990s. Our sources of data in such analysis are the Governance matters project (<http://info.worldbank.org/governance/wgi/#home>), which generates on an annual basis six aggregate measures of institutional quality, including Voice and Accountability, Political Stability, Government Efficiency, Regulatory Quality, Rule of law, and Corruption Control, and the Database of Political Institutions (Beck et al., 2001). We estimate panel regressions with conventional control variables, including regional dummies and time fixed effects, and show that checks and balances during the transition years remain highly significant, both numerically and statistically, for all of the above measures in the subsequent institutional trajectories throughout a quarter-century period.

This is clear evidence of a critical juncture effect in the post-Communist region. Importantly, in placebo tests, the number of veto players past the critical juncture time do not any longer predict institutional quality with the precision observed for the critical juncture years.

A signature feature of extractive institutions is deep economic inequality, and indeed, in a separate panel estimation, Gini coefficients for transition countries over the same observation period exhibit strong correlation with the number of veto players in the early 1990s.

Finally, we present evidence of institutional learning (Mishler, Rose, 2001; Gaber et al., 2017) in transition economies, whereby attitudes to market and democracy in post-Communist countries are shaped by the observed performance of these institutions. To this end, we estimate panel regressions of support for market and democracy, measured in the three waves of the Life in Transition project in 2006, 2010, and 2016, on the number of veto players, still in the early 1990s, with standard controls, and again observe high significance of checks and balances during the transition period, this time for the attitudes to the new

institutions. To demonstrate institutional learning, we show that the link from transition plurality to subsequent views and attitudes is mediated by the institutional performance: once lagged institutional quality variables are included in the regressions, the “veto players” variable loses its significance.

The above analysis demonstrates the importance of inclusive politics and points out to long-term pitfalls of “technocratic approaches” to institutional reform, which could severely compromise institutional quality for years and decades to come.

References

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