Governance and State Capacity in Post-communist states

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1. Governance and State Capacity in Post-Communist Countries

Anti-state attitudes came to epitomize the gist of public policy in Central and Eastern Europe during the first years after the systemic changes as anticipated. The collective experience of political repression, economic inefficiency and the administrative volatility of the totalitarian state prepared a fertile political ground for anti-statist attitudes. Politicians and institutional decision-makers alike expected that the institutions of democracy and the market would be quite easy to construct on the ashes of communism. Good governance, from this perspective, was identical to good formal institutions, because the collapse of communism had allegedly produced an institutional vacuum so that new institutions could be made from scratch. Individual and collective actors were then supposed to adapt to the new rules of the game, at that time defined as the rules of the free market. This perspective, based on the assumptions of public or rational choice, soon proved inadequate. Similar institutions in different counties produced dissimilar outcomes, implying that the local context affected the performance of new institutions. Moreover, the social costs of transition in conjunction with institutional and administrative instability soon gave rise to demands for state intervention and institutional and administrative reform.

These demands coincided with a shift towards more state oriented policies that arose in the major financial institutions from the mid-1990s, (The World Bank, 1997) a shift which in itself was partly provoked by the innovative perspectives on the role of the state that had been developed by historians, sociologists and development economists since the mid-1980s (Leftwich, 1997; Weiss, 1998; Evans, 1995; Evans et al., 1979; Krasner, 1984; Skocpol, 1979). Different perspectives accompanied this renewed focus on the state in post-communist countries. One such perspective focuses on the declining ability of the state to provide basic services for its citizens caused by financial constraints and inefficient tax collection (Schleifer and Vishney, 1999; Schleifer and Treisman, 2000; Solniki, 1998). Another perspective examines the capacity of incumbent state institutions and officials to adapt to the changed technical and administrative demands generated by the systemic transformation (Ágh, 1997; Nunberg, 1999 & 2000; UNDP, 1997; Horváth, 2000; Galligan and Smirlov, 1997). A third perspective on state capacity deals with the ability of state institutions to respond to and integrate political demands, mediate conflicts and maintain popular legitimacy while maintaining their autonomy and capacity to govern. The point where society, politics and institutions meet designates what can be termed ‘governance’. ‘Good governance’ requires a plus sum reciprocity between state and society that produces popular trust and support for institutions while asserting the primacy of national objectives over interests and demands any particular group. Using this perspective as a starting point, the main argument of this paper is that the character of the state-institutional matrix is what ultimately induces virtuous or vicious circles of good or poor governance.
The paper addresses the issues of governance and state capacity in Central and Eastern Europe. It asks why some countries better than others have been able to achieve good governance. Section two introduces the analytical framework and explains the concepts of governance and capacity. Based on statistical analyses of survey data, section three maps the relationship between perceived performance; trust in political and administrative institutions and state-society relationship in the post-communist countries. Section four searches for causal models in a comparative case study of Latvia and Lithuania, two countries that epitomize many of the governance problems besetting post-communism, demonstrating the effects of historical contingencies on institutions and state-society relations. Section five summarizes the findings and proposes an agenda for further research.

2. The analytical framework and explanations of governance and capacity

The term ‘governance’ describes a state’s ability to steer and manage. Good governance concerns a state’s ability to respond to and integrate political demands, mediate conflicts and maintain popular legitimacy while maintaining autonomy and capacity to govern. In this dynamic view, good governance is the result of a positive reciprocity between the state and society. In this respect, good governance is more than hierarchies and administrative and political institutions, although these remain important because they structure the functions of the state (Pierre and Peters, 2000, p. 22). Thus, good governance is found in the interactions between structures.

We propose that good or less good governance is the end result of virtuous or vicious circles comprising perceived performance, trust in and legitimacy of political and administrative institutions and the way in which state and society interacts. This proposition is visualized in Figure 1.

Perceived performance is to be understood as popular perceptions of the government and its ability to meet and respond to public expectations. Popular perceptions as such express an evaluation of governance in the country in question. On the one hand, dissatisfied citizens who evaluate performance negatively do not trust political and administrative institutions to meet and respond to their demands and bestow the regime with little legitimacy. Satisfied citizens, on the other hand, trust political and administrative institutions and provide performance-based support for the regime. Good governance presupposes democratic participation and democratic participation presuppose trust in institutions, thus generating virtuous or vicious circles of governance. Democratic participation, however, is more than mere electoral participation. It also encompasses the participation of civil society organizations in the formulation and implementation of policies. A civil society autonomous from the state was not tolerated in the totalitarian communist state,¹ and much of the interest in the reforms during the transition in the 1990s was focused on the way in which the state exerted influence on the society and the economy.
The state, however, must also maintain some degree of autonomy from interest groups seeking influence if it is to pursue the public interest and keep up national priorities (Kjær, Frølund Thomsen and Hersted Hansen, 2000). In contrast, the state is ‘captured’ if decisions are made to appease specific interests as opposed to the public interests aggregated and mediated through democratic processes.² State capture differs from other more conventional forms of political influence because it implies that specific groups and firms have total control over the policy process. The policy elites have become captives of the groups and firms they are supposed to control – rather than conceptual captives of the requirements and rationality of their bureaucratic positions. State capture thus undermines a transparent and legitimate democratic policy process by reducing the access of rival interests to the state, thereby setting in motion, as we propose here, vicious circles that degenerate into poor governance.

Thus, while Figure 1 summarizes the hypothesized relationship between the parameters of the present study, it does not explain why one country enters the virtuous circle and another the vicious circle. This paper argues that the conflict between new and old institutions explains why countries take one or the other path of governance. Traditional institutions are those that are inscribed into popular attitudes, values and expectations. New institutions are formal arrangements (laws, decrees, organizations, court decisions etc.) introduced in the course of reforms. To understand what determines the outcome of this conflict between new and old institutions we apply the perspectives of two traditions within (new) institutional theory: historical and empirical institutionalism.
Historical institutionalism sees institutions as historically determined rules, norms, values and expectations that, at later historical stages, may independently affect outcomes when actors become wedged between old and new standards of behaviour (Thelen and Steinmo, 1992; Peters, 1999; Nørgaard, 2000). In the present context, we can distinguish between four tiers of historically determined institutions: first, pre-communist institutions whose mentalities or societal structures outlasted the communist epoch. They may consist of general mentalities or values that render societies more or less permeable to new ideas and values. This tier of historically determined institutions is specific to each country or region and may influence subsequent developments by providing focal points for national identities. Second, communist institutions are common heritage in all post-communist countries. Yet, while all communist states were ‘totalitarian’ in the sense that they ideally strove for a total transformation of society, they were in reality quite different on a number of dimensions. In particular, they differed with respect to the state control over civil society. Third, while it is obvious that violent revolutions and ensuing political and social turmoil impair the capacities of any state, the long-term effects of radical ruptures may be different. We may find cases where radical ruptures have helped disarm traditional elites, thus providing a political opening for new forces. The fourth tier is the actual policy and institutional choices that were made after reforms were launched. In this context, the distinction between public policy and institutions may be blurred, because institutional changes form a critical part of reform policy.

Rather than looking for the origin of institutions, the ambition of ‘empirical institutionalism’ (Peters, 1999; Weaver and Rockman, 1993) is to examine the political effects of various institutional arrangements. Research adhering to this tradition focuses on the observable effects of institutions in different contexts or in comparative perspectives. One line of research has focused especially on the political and economic consequences of presidential versus parliamentary systems in new democracies. Neither general comparative studies nor studies focused specifically on the subset of post-communist countries have, however, provided clear answers as to which system of government produces the best outcome in terms of political and economic development. In addressing these issues, Nørgaard (2000a, b) detects a slight negative relation between economic reform and presidentialism, eventually resulting in slower growth. Frye (1997) also finds a negative correlation between presidentialism and economic reforms. Linz’s two celebrated articles (1990a; 1990b) argue that presidentialism is more prone to resulting in breakdowns of democracy than is parliamentarism. In his discussions of the post-communist cases, however, Johannsen (2000) finds that only some forms of presidentialism, for instance presidentialism combined with a highly fragmented party system, can be associated with a slower or non-existent development of democracy compared to parliamentarism. Going one step further back in the causal chain, Johannsen (2000) finds that the choice of government is strategic, reflecting the distribution of the actual and expected resources of the political actors who seek to protect future influence in the
design of institutions. Frye (1999) sees the gradual expansion of executive power in post-communist systems as a function of the inability of weak institutions to protect the gains of transformation winners, thus providing these particular interests with strong incentives to present their demands directly to politicians and state. This argument is in line with Hellman, Jones and Kaufman (2000), who report that the old elites already have influence through traditional networks, and the new elites therefore have to resort to illicit methods to obtain power. For Easter (1997), however, the choice is more specifically related to capture. In his analysis of the choices made in the post-communist countries, Easter finds that presidentialism is the preferred choice of surviving communist elites seeking to preserve their power and to secure access to the state for traditional sectoral elites.

3. Virtuous and Vicious circles

Low levels of trust in institutions engender low levels of support for the regime (Rose, Mishler and Haerpher, 1997, p. 30). Democratic participation presupposes that you trust that the institution of which you are a part will provide the benefits or goods that pertain to its functional raison d'être. And if societal participation is a precondition for good governance, trust in institutions becomes a precondition for democratic participation. As an element in the virtuous and vicious circles of good (or poor) governance, it is thus important to examine what fosters trust. Trust in institutions is expressed in two different ways: as evaluations of the past and present performance of institutions, and as trust in the future performance of institutions. Starting from these definitions we explore two dimensions of popular trust in institutions in post-communist countries: 1) satisfaction with the performance of the institutional arrangements that have evolved in the process of transition, and 2) trust in the political, administrative and traditional institutions. Finally, we examine state capture as the third component of the virtuous and vicious circles introduced in section 2.

3.1 Performance gaps

As measured by the Central and Eastern EuroBarometer a majority of East European populations believe that their country is heading in the wrong direction (Figure 2) and demonstrate dissatisfaction with development of democracy (Figure 3). Figures 2 and 3 reveal the gap between popular expectations and the overall institutional performance following the systemic changes. Both figures show the general trends in three regions and one outlier: the CIS countries (indicator), the CEE countries, and the Baltic States and Albania.

The performance evaluations in Figures 2 and 3 illustrate three points. First, there is a high degree of correspondence between the curves in the two figures, indicating that no major distinction is made between the general performance of the system and the outcome of democratic institutions. However, the interpretation of the ‘satisfaction-with–democratic-development’-question runs in two directions. At
the aggregated level Johannsen (2000; pp. 34-5; 205-6) and Nørgaard (2000a, pp. 202-5) find that rather than measuring democratic development in the liberal sense, the satisfaction variable expresses an evaluation of the government’s ability to deliver desired outcomes on a broadly interpreted welfare dimension. At the respondent level Berglund (1999) and Klingerman and Hoffbert (1998), in contrast, have argued that individuals’ perception of the human rights situation is a better predictor for satisfaction with democracy than individual assessments of economic prospects. However, a closer examination of available data shows that it is a mixture of the two, and that Berglund fails to consider the respondents’ retrospective economic assessments. Regression analysis at the respondent level including this item indicates that both evaluations of past and future economic prospects and evaluations of the government’s record in respecting human rights enter into the equation.7

Figure 2. The overall direction of the country. (right =1, wrong = 2) 1990 – 1996. Mean.

Legend: CEE = Bulgaria, the Czech Republic, the Slovak Republic, Hungary, Poland, Romania, and Slovenia. CIS indicator includes Armenia, Belarus, EuroRussia, and Ukraine. Baltic states include Estonia, Latvia, and Lithuania. Interpolations for 1991 for Armenia, Belarus, Ukraine, the Slovak Republic, and Slovenia. Interpolations for 1993 for Albania, Armenia, Belarus, The Czech Republic, Estonia, EuroRussia, Hungary, Latvia, Lithuania, Romania, Ukraine, The Slovak Republic, and Slovenia. Croatia, Georgia, Kazakhstan, and Moldova omitted from analysis because of too few or too distant observations to make interpolation.

The question: ‘In general, do you feel things in (your country) are going in the right or in the wrong direction?’ Responses were scored 1=right direction, 2=wrong direction, 3= don’t know. Respondents answering ‘don’t know’ were excluded from the analysis.

Source: Central and Eastern EuroBarometer 1990-1996 surveys. Danish Data Archive.

On the one hand, the data indicate the growing salience of economic welfare issues and economic voting in most post-communist countries. The post-communist countries have thus already become ‘normal’ societies in the sense that citizens pursue their own individual interests and judge institutions according to their performance either on aggregated indicators or on the basis of individual utility (Nørgaard 2000a; Fidimurc, 2000). On the other hand, Berglund’s (p. 20) conclusion, ‘there is no
evidence that human rights loses salience as time go by and freedom is taken for
granted’ is important as an indicator that present performance is also judged against
the past record of communist rule. This interpretation also helps to explain the
surprising position of Albania. Contemporary Albania may not be a pleasant place to
live and not even be a democracy, but in the minds of its people, it nevertheless
stands out as a better place to live in terms of human rights than it was before the
changes. In the specific context of the Albanian transition the shadow of the past still
has a relatively massive influence on people’s evaluation of performance.\textsuperscript{8} For all
years, Albanian majorities express that the country is heading in the right direction,
the 1.2 mean value expressing that 85 percent of the population believe so. Furthermore, Albania constitutes two of the three cases throughout the period in which a majority have expressed satisfaction with democratic development, respectively 61.6 and 76.2 percent in 1995 and 1996 doing so.\textsuperscript{9}

Figure 3: Satisfaction with the development of Democracy. (Very = 1, fairly = 2, not

Legend: See Figure 2.

The question: ‘On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the way democracy is developing in (your country)?’ Responses were scored 1= very satisfied, 2=fairly satisfied, 3=not very satisfied, 4=not at all satisfied, 5=don’t know. Respondents answering ‘don’t know’ were excluded from analysis.

Source: Central and Eastern EuroBarometer 1990-1996 surveys. Danish Data Archive.

Second, the two figures also support the political idea that the Baltic States are in
fact a part of Central Europe. The similarity in the development of satisfaction
variables in the CEE countries and the Baltic States supports this argument. Only the
1991 data reveal a major difference between the Baltic States and the Central and
East European Countries following the restoration of Baltic independence. Third, the
stable difference between the CIS countries on the one hand and the CEE countries
and the Baltic States on the other suggests, irrespective of economic development
and political fortunes, a conflict between traditional and modern institutions (the market and pluralist institutions). The institutional legacies (the ‘collective memory’ of the market and pluralist ideas) in the CEE and the Baltic States have rendered the new institutions less alien in these countries than in the CIS, where especially the communitarian traditions, ‘sobornost’ in Russian (Danilovich, 2001 forthcoming), provide a major hindrance for liberal institutions. The stable level of satisfaction variables also indicates that we are in fact dealing with structural variables.

3.2. Trust in political, administrative and traditional institutions

During communism, traditional institutions did enjoy greater legitimacy and popular support than intermediate institutions in the sphere of politics and administration. Surprisingly, this pattern has been replicated under post-communism, where public trust in intermediate institutions remains modest. For example, Steen (1994) reports that the Balts place more trust in the symbolic institutions than in the new democratic institutions. These findings are confirmed on a larger scale by the New Democracy Barometer IV and New Baltic Barometer III, as reported in Table 1.

When we traced mean trust in specific institutions for each country the institutions were sub-divided into three groups: the political institutions of political parties, parliament, government and president; the administrative and judicial institutions, i.e. courts, public officials and police, and finally, the church and the army represent traditional national institutions.

While there is variation between the countries in the level of trust placed in specific institutions, there are nevertheless three overall patterns in Table 1. First, mean level of trust falls below the natural midpoint, signifying a large degree of mistrust in political and administrative institutions. Second, more trust is generally placed in the traditional rather than in the political and administrative institutions. Among the latter two, less trust is placed in the political institutions. Political parties inspire the highest degree of mistrust. By comparison, trust in the president is generally higher than for the other political instructions. In 8 of the 13 cases, trust in the president is at or above the natural midpoint. This pattern probably reflects not only a personified office, but also the differences among the presidencies in terms of executive power and symbolic functions.

Compared with trust in the traditional institutions, the church and the army are trusted at a rate above or at the natural midpoint in 9 and 10 cases, respectively. The low degree of trust in political and administrative institutions implies that state institutions are vertically insulated in both the political and the administrative sphere. There are too few cases to provide a solid regional perspective, but Table 1 indicates the same divide which occurred concerning attitudes to macro institutional development: Trust in political and administrative institutions seems somewhat higher in the CEE than in the two CIS countries, whereas hardly any difference can be detected with regard to traditional institutions. However, and we need more country cases if we are to reach firm conclusions.
Table 1: Trust in Political, Administrative and Traditional Institutions.

<table>
<thead>
<tr>
<th></th>
<th>Political inst.</th>
<th>Administrative inst.</th>
<th>Trad. inst.</th>
</tr>
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<tbody>
<tr>
<td>Bulgaria</td>
<td>Mean</td>
<td>34.5</td>
<td>44.2</td>
</tr>
<tr>
<td></td>
<td>Std. dev</td>
<td>28.8</td>
<td>34.5</td>
</tr>
<tr>
<td>Croatia</td>
<td>Mean</td>
<td>37.9</td>
<td>49.4</td>
</tr>
<tr>
<td></td>
<td>Std. dev</td>
<td>26.2</td>
<td>29.6</td>
</tr>
<tr>
<td>Czech R.</td>
<td>Mean</td>
<td>42.8</td>
<td>53.5</td>
</tr>
<tr>
<td></td>
<td>Std. dev</td>
<td>22.6</td>
<td>26.1</td>
</tr>
<tr>
<td>Hungary</td>
<td>Mean</td>
<td>27.4</td>
<td>35.3</td>
</tr>
<tr>
<td></td>
<td>Std. dev</td>
<td>27.4</td>
<td>23.9</td>
</tr>
<tr>
<td>Poland</td>
<td>Mean</td>
<td>27.2</td>
<td>39.9</td>
</tr>
<tr>
<td></td>
<td>Std. dev</td>
<td>23.4</td>
<td>23.9</td>
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<tr>
<td>Romania</td>
<td>Mean</td>
<td>37.0</td>
<td>38.7</td>
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<tr>
<td></td>
<td>Std. dev</td>
<td>29.4</td>
<td>30.9</td>
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<tr>
<td>Slovakia</td>
<td>Mean</td>
<td>34.9</td>
<td>41.9</td>
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<tr>
<td></td>
<td>Std. dev</td>
<td>24.6</td>
<td>30.7</td>
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<tr>
<td>Slovenia</td>
<td>Mean</td>
<td>32.7</td>
<td>53.9</td>
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<tr>
<td></td>
<td>Std. dev</td>
<td>25.1</td>
<td>28.6</td>
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<tr>
<td>Estonia</td>
<td>Mean</td>
<td>28.2</td>
<td>48.4</td>
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<td></td>
<td>Std. dev</td>
<td>22.9</td>
<td>25.0</td>
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<tr>
<td>Latvia</td>
<td>Mean</td>
<td>22.4</td>
<td>41.4</td>
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<tr>
<td></td>
<td>Std. dev</td>
<td>25.9</td>
<td>28.7</td>
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<tr>
<td>Lithuania</td>
<td>Mean</td>
<td>29.7</td>
<td>39.3</td>
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<tr>
<td>Belarus</td>
<td>Mean</td>
<td>22.8</td>
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<td>Std. dev</td>
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<td>Ukraine</td>
<td>Mean</td>
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<td>Std. dev</td>
<td>24.9</td>
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Legend: High value equals high degree of trust. The question reads: ‘there are many different institutions in this country, for example, government, courts, police, civil servants. Please show me on this scale how great is your personal trust in each of these institutions that I read to you;’

Notes: The standard error of the mean less than 1.5 for all cases. In NDB IV and NBB III, 7 and 4-point scales, respectively, were used. Both have been standardized into 100-point scales. For the Baltic States ‘Cabinet of Ministers’ is used as proxy for government.

Source: NBD IV and NBB III.

Howard (2000) demonstrates that the average post-communist citizen has ‘significantly and consistently lower levels of membership and participation than citizens of most other democratic countries’ (p. 41), and that the differences between the post-communist societies can be better characterized as ‘difference in degree’ rather than ‘differences in kind’. Furthermore, Misher and Rose (1998, p. 25) find that even if social capital in the form of interpersonal trust ‘has substantial effect on individuals’
trust in political institutions, the cumulative effects of performance evaluations on political trust are even greater’. These findings are consistent with the pattern of low trust in political and administrative institutions reported in Table 1 and the hypothesized relationship between democratic participation and trust depicted in Figure 1.

In a historical perspective, the pattern of vertical insulation shown in Table 1 is the outcome of three historical legacies or institutional path dependencies. First, they obviously reflect not only the repressive nature of communism, but also the patterns institutionalized by the orthodox communist top-down style of government where state institutions were seen as conveyor belts rather than forums for public engagement and societal participation. Second, in some countries, and in particular in the ’anti-political politics’ associated with Havel (1988), they reflect a pattern institutionalized during the resistance to the incumbent communist systems, in that meaningful political engagement was by definition being outside and against the state institutions. Third, these patterns were in many countries reinforced by the neo-liberal and retrenchment-of-the state policies of the early 1990s.

Societal participation unfortunately also has a dark side when participation turns into penetration and capture of state institutions.

3.3 The capture of the state

Societal engagement and participation in political and administrative life are prerequisites for good governance and participation requires trust in the institutions. Trust encourages participation, which in turn improves performance, which again increases trust. This is the spiral argument of the previous sections. The mirror image of this virtuous circle is a situation where low levels of trust cause low participation, which leads to a decline in performance, and eventually less trust in institutions, in short, a vicious circle. The vicious circle can be initiated by the capture of state institutions. ‘Capture’ is understood as groups, firms or institutions that come to dominate political and administrative institutions, the state thus ceasing to represent national concerns. Captured states endow particular groups, firms or institutions with special advantages and benefits, thus bypassing normal democratic procedures.

The World Bank Business Environment and Enterprise Performance Survey (BEEPS) is a useful indicator of state capture in post-communist countries. The survey uses a set of questions to measure the ‘extent to which firms make illicit or non-transparent private payments to public officials in order to influence the formation of laws, rules, regulations or decrees by state institutions’ (Hellman, Jones and Kaufman, 2000, pp. 5-6).12 The resulting Index of State Capture is illustrated in Figure 4, and the bivariate correlations between state capture, performance evaluations, and patterns of trust in political, administrative and traditional institutions is reported in Table 2.
Figure 4: Degree of State capture in CEE and CIS. 1999.


Figure 4 gives rise to three observations. First, it appears that there is no connection between economic reforms and capture. Typical star reformers such as Estonia, Hungary and Slovenia experience a low degree of capture, but so do Belarus and Uzbekistan. It is more likely, however, that this pattern illustrates the costs of an incomplete transition. It seems possible to ward off new interests seeking to capture the state by successfully implementing new institutions or by keeping the old structures. This may seem paradoxical in, for example, the Latvian case because that country has returned to pre-communist institutional structures. These structures designed in the interwar period, however, and perhaps no longer ‘fit’ a country that has seen massive demographic, economic and social changes during the communist period. This case will be pursued in further detail in section 4. Second, the wars that accompanied the break-up of Yugoslavia and the Soviet Union, resulting in war economies and political systems, seem not to influence state capture. War torn Croatia and Azerbaijan exhibit high degrees of state capture, while equally war torn Armenia does not. Third, although no overall geographic pattern is detectable, the CIS countries, on average, are captured to a greater extent than are the CEE countries (incl. the Baltic States). This corresponds to the patterns observed in Figures 2 and 3 above.
But why are states captured? Is it a question of institutional design or a reflection of broader patterns of historical legacy?

On the institutional aspect, we tested whether presidential systems are more prone to capture than are parliamentary systems. To measure the strength of a presidency we applied the degree of formal authority (Index of Presidential Authority - IPA) and compared this index with the degree of state capture, as shown in Figure 5. While there is a clear division into more presidential and more parliamentary systems, there is no apparent effect of either presidentialism or parliamentarism. Hence, Figure 5 illustrates that the argument that governance and especially capture are related to the form of government is not valid. If the design of a presidency contains a deliberate strategy to capture the state and not only to hedge influence in the institutional design, then Figure 5 demonstrates that this strategy does not always succeed.
Figure 5: State capture and the Index of Presidential Authority.


3.4 Virtuous and vicious circles revisited

Virtuous and circles produce good or poor governance in post-communist countries. Performance breeds trust and participation, which again enhance performance. The capture of state institutions by outside actors seeking advantages at the expense of the community at large contributes to our understanding of why circles turn either virtuous or vicious. Once it is in place, the vicious circle become difficult to escape because state capture contributes to deteriorating trust and performance. Capture, perceived performance and trust form a cluster of factors, which explains the presence or absence of good governance. However, we have been unable to confirm whether the specific institutional design in the form of presidentialism versus parliamentarism makes states more prone to capture.

This is not to imply that institutional explanations are unimportant, but it does indicate that the impact of institutions varies with the local context. It is impossible to test this hypothesis for all countries in the post-communist world in the context of the present paper, and we have therefore chosen to focus on two countries that, while apparently sharing the communist history and legacy of forced industrialization, have distinctly different pre-communist identities and post-communist developments.

4. History and capacity: The cases of Latvia and Lithuania

Cross-country comparative statistical analyses demonstrated the links between capture, trust and performance in the virtuous and vicious circles, producing good or poor governance. We also showed that institutional factors (presidentialism) did not affect the propensity of states to become captured by specific interests. However, if
we want to examine the strength of the second line of explanation introduced in section 1, the broader historically formed institutions, we must move from the general comparative level to the focused case study level.

Both Latvia and Lithuania countries can be described as intermediate cases between Central Europe and the CIS countries, because they were closely integrated into the Soviet orbit of government and control on the one hand, while on the other they were independent states until the Second World War. This common historical background should, it would seem, dispose for similar capacities to generate good or poor governance, as they were also exposed to rather similar benign international environments following the restoration of independence in 1991. This is, however, not the case. As indicated by the World Bank Survey (see Figures 4 and 9) Latvia has been more than twice as exposed to state capture as Lithuania.

This picture was confirmed in a recent survey of state capacities in Latvia and Lithuania. The two studies used a subset of persons, who had been ministers in selected (‘critical’) ministries since restoration of independence, as informants about the workings of central state institutions and relations to civil society actors and organizations. First, the survey showed that greater ministry officials in Lithuania had a 20 percent greater propensity for collaborating with societal institutions for collaborating with societal institutions (Fig. 6). Second, as shown in Figure 7, the survey showed a markedly higher frequency of permanent patterns of collaboration with external institutions and actors. Finally, the survey also showed that Lithuanian ministers had much greater confidence that the active participation of civil and economic society actors would improve the implementation of state policies (Fig. 8).

Figures 6, 7 and 8 show that collaboration between central state institutions and civil society organizations is more commonplace in Lithuania than in Latvia, as is the frequency of working contacts. This pattern is apparently carried by the much greater confidence of Lithuanian top officials in the positive effect of state-society interaction.

Figure 6: Working relationships of Ministerial officials.

![Fig 6: Working relationships of Ministerial officials.](chart.png)
These observations on the capacity of states with very similar starting points are further specified if we return to the World Bank survey of state capture. This survey allows us to differentiate between capture of different sectors of the political and economic system, as illustrated in figure 9.

According to Figure 9, two countries that we would ex ante expect to have very similar state capacities as measured in trust, state capture and performance evaluations, turned out to perform very differently. How do we explain this discrepancy? First, available data show that the logic of the virtuous/vicious circle argument presented in section 2 holds for these two countries: while both states are characterized by very low rates of trust, the state suffering most captured (Latvia) has the least satisfied constituency, while the state with the highest approval ratings (Lithuania) is characterized by the highest interaction and trust between societal organizations and central state actors. Hence, the critical variable in the instigation of virtuous and vicious circles, and eventually in good and poor governance,
becomes the predisposition for positive state-society interaction versus the predisposition for state capture.

**Figure 9: Institutional capture in Latvia and Lithuania compared.**

![Bar chart showing institutional capture in Latvia and Lithuania](chart.png)

*Source: BEEPS surveys by The World Bank (1999).*

We now know that the explanation why countries end up in the first or second alternative is not to be found in institutional design (at least at the macro level). We believe that it is necessary to turn to long-term institutional trajectories instead (Thelen and Steinmo (1992), the historical institutions celebrated by historical institutionalism, if we want to explain when countries come to produce a positive synergy between state and society and when state capture results. In section one we distinguished between four tiers of explanations. The first three tiers reflect the different institutions that were formed by history in the two countries. The last tier deals with policy choices made after independence.

The first tier addresses the consequences of the different modes in which the incumbent communist systems were extricated. Following independence in 1991, Latvia by tacit consensus among the political parties representing ethnic Latvians chose to reinstate the 1922 parliamentary system with a largely ceremonial presidency and a president appointed by the parliament. In comparison, following a protracted constitutional struggle Lithuania adopted a semi-presidential system in 1992 (Nørgaard and Johannsen, 1999, pp. 60-66). Where the long and bitter constitutional struggle in Lithuania gave all contesting political actors a stake in the new institutions typified by the complex constitutional system, the Latvian constitution excluded about 30 percent of the population (largely Russian speaking immigrants) from political influence. Today these groups may have to turn to illicit methods in order to gain political influence. The degree of penetration of the political system...
(political parties, president and parliament) reflects not only the way in which excluded interests seek influence, as discussed above, but also that the political parties in Latvia are weaker than their counterparts in Lithuania (Nørgaard and Johannsen, 1999, pp. 94-96). This also serves to illustrate that the political and civil society at the meso level is more developed in Lithuania than in Latvia.

Second, the communist epoch was very different in the two countries and produced different patterns for state-society relations. Lithuania was, for a number of reasons, able to maintain an ethos of national communism, where national politicians were able to control the political agenda and defend national priorities. In Latvia, in contrast, the state apparatus was controlled from the early 1950s onwards by aliens, mostly expatriate Latvians from Russia. The consequence was that while the state in Lithuania maintained legitimacy during most of the communist epoch, this was not the case in Latvia, where it became a symbol of foreign dominance, and hence endowed with little legitimacy and trust. The communist epoch with its forced industrialization has also generated differences between the countries. Although already industrialized in the pre-war period, further industrialization during communism left the Latvian economy highly concentrated in certain sectors, in particular the country’s position on east-west trade and energy transit routes. This gave rise to what may be termed a rentier state, providing huge opportunities for extracting rents and therefore an obvious target for capture (Pradhan, 2000, p. 70; Nørgaard and Hersted Hansen, 2000). Also the third institutional tier related to pre-communist symbols reinforces the same patterns of state-society relations in the two countries. Lithuania has always had a strong national self-consciousness, reaching back to her Middle Age status as a major European power. Even today, this distant history bestows the state and its institutions with an aura of past grandeur that spills over into popular trust, which may protect the state against being exploited by special groups. Latvia, in contrast, has always struggled with a week national identity caused by quite fundamental regional differences in culture, religion and economic development. Large ethnic minorities (Germans and Russians) with major economic and political positions have also made it difficult to cultivate a genuine sense of a Latvian identity, with ensuing negative attitudes towards a state, which was never perceived as a national institution symbolizing shared values. Finally, also the policy and institutional choices made after independence in the two countries have affected the level of state capture and state capacities. Especially the case of the (non captured) Central Bank in Latvia is informative, because it shows that policy choices and institutional arrangements can prevail over a predisposition towards capture penetrating other state institutions (Nørgaard and Johannsen, 1999, p. 129-131).

This short comparative case study illustrates that although we were unable to identify any direct effect of macro (institutions) on governance, institutions may nonetheless have an effect. The consequences of institutional choices vary between contexts, however, here conceptualized as the three tiers of institutions formed by the history of each country. The case of the central banks in the two countries also
underscores this point. Special interests have apparently captured most state institutions in Latvia, but evidently not the Central Bank. Although history conditions, politics decide. Appropriate political and institutional choices can change the course and predispositions embedded in the historically formed institutions.

5. Conclusion: institutions and governance in post-communist countries

The ambition of this paper was to improve our understanding of what produces good and poor governance in post-communist countries. Starting form a definition of good governance as a style of government which integrates social and political demands while upholding national goals and priorities, it was hypothesized that countries could enter virtuous or vicious circles of good or poor governance. In the virtuous version, a government is able to inspire popular trust in state institutions, which is a precondition for active societal engagement and the participation that provides the government with the information and resources necessary to meet the expectations of the population. In the vicious version, particular interests captured state institutions. This results in decreasing popular trust in institutions, and eventually declining performance and bad governance. To understand what caused good and poor governance we applied the insights gained from historical and empirical institutionalism. When exposed to comparative statistical analyses the data provide evidence that two patterns link institutions to governance. Perceived performance and trust in institutions are positively correlated and both negatively associated with state capture. Further, if state capture is seen as the trigger of the virtuous and vicious circles of governance, the comparative case study showed that long-term historical trajectories (historically determined institutions) provide sound explanations of why the two countries performed so differently, regardless of their apparently similar starting positions. However, the case study also demonstrated that one institution, the Central Bank of Latvia, diverges from the overall picture and has escaped the capture that characterizes most other state institutions in Latvia. This case illustrate that even in countries conducive to capture, it is possible to design new institutions that avoid the disposition of the historically determined context.

This observation suggests that we must combine the perspectives of empirical and historical institutionalism if we are to understand the performance of particular institutional configurations. In such a combined perspective, the performance of particular institutional arrangements should be assessed in conjunction with each country’s specific institutional endowments. New institutions can only enjoy trust and legitimacy if they are coincide with the informal institutions of society, eventually boosting participation and improving good governance. While this observation remains tentative and has to be developed in further empirical research, it does correspond with the observation made long ago in the structuralist tradition in development economics. Recent insights from Central Europe lend further credit to this argument. Future research should therefore concentrate on how to conceptualize the channels that link the past with present institutional endowments and on
further elaborating and defining the parameters involved in the fusion of new and old institutions in specific country contexts.

Notes

2. This definition is developed from the discussion in Pradhan (2000), p. 3.
3. Thanks are due to Tom Y.K. Nielsen for assistance with the compilation, coding and comparison of the data presented in this section.
4. Weights were used wherever possible to make the sample representative for each individual country.
5. We prefer the term indicator because only Armenia, Belarus, EuroRussia and Ukraine are represented in the mean.
6. Using the 1996 survey, a significant mean difference in satisfaction with development of democracy can be demonstrated between those who perceive that their country is going in the right direction and those who perceive it to be going in the wrong direction. Satisfaction with development of democracy: Mean Right direction = 2.47, Mean wrong direction = 3.34. Mean difference = 0.87. Significance = 0.000. N = 17.980. See also Table 2 for the correlations on aggregated level.
7. Without repeating Berglund’s recoding of the data but instead using the original finer scale, regressions analysis for all countries in the 1996 Central and Eastern EuroBarometer shows an overall adjusted R\(^2\) of 28.8 percent with standardized beta values for (Q7) human rights, (Q3) retrospective economic assessment, (Q4) prospective economic assessment at 0.33, 0.21 and 0.17 respectively.
8. Analysis for Albania in the 1996 Central and Eastern EuroBarometer shows an overall adjusted R\(^2\) of 49.5 percent with standardized beta values for (Q7) human rights, (Q3) retrospective economic assessment, (Q4) prospective economic assessment at 0.42, 0.33 and 0.10 respectively.
9. Romania constitutes the third example. In 1996, 54.6 percent expressed that they were very or fairly satisfied with developments.
10. NDB and NBB surveys are provided as part of the CITNET program. For more information about the surveys, see http://www.cspp.strath.ac.uk/
11. Repeated factor analysis demonstrates that three types of institution can be distinguished. In NDB IV political parties, government and Parliament all load on the first component. Courts, police and public officials load on the second, while the church and the army as the traditional institutions load on the third component. Presumably because the President carries symbolic as well as executive functions, the question of trust in the President loads equally (poorly) on both the political institution component and the symbolic component. In NBB III, the President, Cabinet of Ministers (here used as proxy for government) and parliament load on the first component. Police, Courts, Officials and the local army load on the second, and the church on the third. In NBB III, the question of trust in political parties loads poorly on all components.
12. The battery involves 1) the sale of parliamentary votes on laws to private interests; 2) the sale of presidential decrees to private interests; 3) Central Bank mishandling of funds;
4) the sale of court decisions in criminal cases; 5) the sale of court decisions in commercial cases; 6) illicit contributions by private interests to political parties and election campaigns.

13. The analysis and discussion in this section are based on Nørgaard and Johannsen (1999).

14. The Latvian survey (face-to-face interviews) was conducted in January 2000 and complemented with about 10 in depth interviews with centrally placed civil servants. The Lithuanian survey was conducted by Ole Hersted Hansen in November 2000, and is now being supplemented by in-depth interviews. The interviews included 51 (Latvia) and 53 (Lithuania) former ministers with the following portfolios: A) Ministries with general (domestic) responsibilities – Finance and Economics. B) Those with more specific (but central) domestic tasks – Welfare and the Interior (there are, of course, other ministries in this category). C) Foreign Affairs. For a more detailed presentation of the two studies, see the research reports on www.demstar.dk (Ole Hersted Hansen, 2001) is forthcoming.

15. See table 1 on trust variables. For satisfaction variables, see Nørgaard and Johannsen, 1999, p. 99.

16. This pattern corresponds to the distinction between capture and influence as discussed by Hellman, Jones and Kaufmann (2000, pp. 5-6, 12).

17. For a comparison of the organizational strength of Latvian and Lithuanian political parties, see Smith-Sivertsen (1996, 1997).

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