

# **New Faces in Post-Soviet Politics**

## **Does It Really Matter?**

### **Systemic Corruption in Armenia and Georgia**

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## **ABSTRACT**

Scholars of post-Soviet transitions often consider corruption to be an outcome or expression of something that went wrong in the transitional process. In my paper, I argue that corruption should instead be put squarely at the center of analysis. Sovietologists were long aware that extensive networks of corruption had permeated the Soviet state and party structure. In my research that I conducted from 1998 – 1999 in Georgia and 2003 in Armenia, I found that these informal institutions of corruption have largely survived the rapid changes of the early 1990s. Similar to Soviet times, they currently coexist with the formal political and economic institutions, emasculating the latter to a significant degree. By undermining political and economic competition, as well as accountability and thereby the rule of law, corrupt institutions contribute to massive violations of citizens' rights and strangle the economies of most Soviet successor states. The extent of damage done by corrupt institutions, however, depends to a significant degree on the amount of control that the central government exerts over the corrupt system. Control, in turn, is a function of the mode of post-Soviet transition. In sum, corruption is an important intervening variable between the form of transition and the transitional outcome. Either way, the cementation of corrupt networks makes the arrival of 'fresh' leaders extremely unlikely and/or undermines the political reach of new leaders.

## INTRODUCTION

Bribery, embezzlement, extortion and other abuses of official positions (especially if they involve high-ranking officials) usually make for good news. Between 1984 and 1995, the number of articles in major North American newspapers and magazines that addressed official corruption quadrupled (Leiken 1996, 58).<sup>1</sup> An important cause for the sudden increase of media attention was certainly the fall of communism, which has lifted the veil of (state) secrecy and opened doors for western journalists. What they were able to observe in the post-communist countries, and especially in the Soviet successor states, were bewildering levels of corruption comparable only to the levels of corruption in some African countries. In fact, *Transparency International* (2002, 265) has recently identified five post-Soviet countries among the twenty most corrupt countries in the world.<sup>2</sup>

Despite this media attention, scholars studying the former Soviet Union have not taken much notice. Corruption is usually considered to be the expression or the outcome of something that went wrong in the countries' transitions towards democracy and a market economy. For instance, corruption is viewed as a central indicator for the absence of the rule of law, but not as its cause. This casual treatment of corruption in the former Soviet Union is somewhat surprising, taking into account that several Sovietologists have long acknowledged the important role that crime, clientelism, and corruption played in Soviet politics (Altman 1989; Clark and Wildavsky 1990; Copetas 1991; Critchlow 1988; Eisenstadt and Roniger 1981; Feldbrugge 1984; Gleason 1990; Grossman 1977; Kaminski 1989; Kramer 1977; Lampert 1983; Mars and Altman 1983; Schwartz 1979; Staats 1972; Vaksberg 1991; and Willerton 1992). A central reason for underestimating the independent role of corruption probably lies in the conceptualization of corruption influenced by western experiences. Namely, corruption is considered to be an isolated incidence between a bribe-giver and a bribe-taker. High levels of corruption merely indicate high levels of isolated incidences of corrupt activities.

In this paper, I argue that scholars of post-Soviet transitions should pay close attention to corruption in order to gain a better understanding of the economic and political processes in the successor states. Two observations inform my argument: First, corruption predated the fall of communism by several decades. Second, by the 1970s corruption in the Soviet Union had developed into a separate system within the Soviet polity and society – it had become widespread and institutionalized. Soviet corruption was not an accumulation of isolated incidences, but it was characterized by its extent, reaching almost every segment of the communist state, party and society, and its rules and norms that were internalized and respected by many, if not most officials and citizens.

A close analysis of the post-Soviet state apparatus and its interaction with society reveals that many of the corrupt rules and norms still guide the behavior of officials and citizens. Corrupt structures have largely survived the rapid political and socio-economic changes of the early-1990s. Today, the corrupt system uneasily coexists with the formal political and economic institutions of the post-Soviet states, usually undermining the latter in the course of which citizens' rights and liberties are violated. In other words, corruption is not just the unfortunate outcome of failed democratic and economic transitions, but in many ways their direct cause.

At the same time, the corrupt system was not immune from the political changes that took place in the early-1990s. Whereas the corrupt system of the Soviet republics was highly centralized – that is, controlled by the communist leadership on the respective republics – some successor states reveal almost anarchic forms of corruption, largely uncontrolled by the new political leadership. I argue that the degree of centralization is a function of the mode of transition. To be precise, negotiated transitions allowed the new leaderships to maintain tight control over the corrupt system; whereas state collapse usually meant that the new leadership had to recover control, which has not always (and never completely) been achieved.

I further assert that the level of control over the corrupt system affects the political and economic consequences of corruption. Systemic and decentralized systems of corruption throttle the economy and cripple the state. However, decentralized corruption also allows for some form of political competition that could maintain a democratic structure. In contrast, centralized corrupt systems merge political and economic power and thereby forestall democratic development. Yet control over the corrupt system permits the political leadership to maintain a relatively functioning state apparatus that guarantees the financial viability of the state and allows for

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<sup>1</sup> Following Joseph S. Nye (1967, 421), I define corruption as “behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence.”

<sup>2</sup> In descending order of their levels of corruption, these are: Azerbaijan, Moldova, Kazakhstan, Ukraine, and Georgia.

economic development. In sum, I consider corruption to be an important intervening variable between post-Soviet transitions and the outcomes of these transitions.

My case studies are Armenia and Georgia – a centralized corrupt system and a decentralized one, respectively. The findings of my research rest on some seventy interviews that I conducted with state officials, civil society representatives, foreign officials in Georgia (September 1998 – June 1999) and about thirty interviews with comparable groups of individuals in Armenia (June 2003). The names of these individuals will only be provided if they explicitly permitted such use.

The first section of this paper describes the Soviet system of corruption and examines the ways in which the corrupt rules and norms have evolved during the 1990s. The second part analyzes the impact of systemic corruption on political and economic development, taking into account the degree of centralization. In the third section, I demonstrate that the level of control over the corrupt system in Georgia and Armenia is a function of these countries' different modes of transition. I conclude by pondering the likely future of Armenia and Georgia's political and economic systems, arguing that the advent of reformers is unlikely in the former case and inconsequential in the second one.

### SOVIET AND POST-SOVIET CORRUPTION

Despite the strong penalties that Soviet authorities imposed on corrupt practices, corruption was widespread in the Soviet Union. As Konstantin Simis, a Jewish lawyer who was forced to leave the Soviet Union, aptly put it (1977, 46): “it can be stated without fear of exaggeration that the average Soviet citizen [was] accompanied by bribery from womb to tomb.” The Soviet system provided fertile soil for corrupt behavior. The state-party apparatus regulated almost all spheres of public and private life. It exerted control over the distribution of even the most basic resources and services that were usually in short supply and of low quality, causing “a frantic search after commodity” among Soviet citizens (Eisenstadt and Roniger 1984, 158). It did so without any effective internal or external control mechanisms – horizontal accountability was annulled by the dominating position of the Communist Party (CP), and the absence of free and fair elections and a weak civil society eliminated effective outside control. In this environment, getting caught for abusing a public position for private gain was unlikely and few officials therefore resisted the temptation to be a part of the corrupt system.

What turned these manifold opportunities to take bribes into a system of corruption was the prevalence of clientelist structures within the state-party apparatus. Clientelism was initially built around the career ambitions of Soviet officials who realized that without the patronage of a higher official, there was little chance to win the competition for a few thousand top positions in the apparatus. With ideological fervor rapidly declining from the 1960s on, officials were increasingly interested in material well-being (Clark and Wildavsky 1990, 217) that could be obtained through official privileges and most of all by abusing one's position for illicit gains. Many officials were directly involved in corrupt activities, and they profited from the illegal activities of their inferiors by selling offices to the highest bidder and by receiving shares of illicit gains from lower officials. Money thereby made its way from the bottom to the top of the apparatus, and protection was granted from higher officials in return. It was also common to use these networks to charge a lower official with committing a crime (theft, burglary, etc.) who would then pass this order on to his inferiors and so forth.<sup>3</sup>

The communist leadership officially condemned corruption, using the nomenklatura system to counteract such practices. Yet “once the power to appoint key local officials [had] been diverted to promote private ends, the nomenklatura system [could] actually operate to protect corrupt officials” (Staats, 1972, 45). Party officials routinely failed to prosecute corrupt state officials and instead punished those disclosing corrupt activities (Lampert 1983).

Several factors indicate that the Soviet system of corruption was widespread and highly institutionalized. First, being corrupt was not only tolerated but also expected from most superiors. Honest officials were punished for *not* taking part in corrupt activities (Simis 1982, 218ff.). In addition, “the purchase and sale of positions for large sums of money signifies the profound institutionalization [...] of a whole structure of bribery and graft, from the bottom to the top of the pyramid of power” (Grossman 1977, 32f.). Finally, the rules that structured corrupt activities were refined and commonly known (Vaksberg 1991, 6ff.). In conclusion, the formal hierarchies of the

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<sup>3</sup> Interview with a former high-ranking police officer of the Georgian police force who retired from his position in the early-1990s (Tbilisi: n.d.).

Soviet state-party apparatus hosted thousands of informal networks that were held together by greed, attempts to advance in the hierarchy, and the search for protection. These informal networks were ultimately controlled by the communist leadership in the Soviet republics.<sup>4</sup>

The financial sources that fed these networks were the official (first) and unofficial (second) economies. In order to fulfill the production plans, directors of state companies often had to rely on report padding and other forms of corruption, such as the *tolkach* system.<sup>5</sup> Beyond bending the rules in the official economy, there were numerous opportunities to profit within the second economy. Some of the illegal activities as part of the unofficial economy included: diversion of state property for use in private production or distribution; diversion of state property for private consumption; private trading (speculation); professional activities for private gain (e.g., professors giving unreported private lessons); and illegal practices to satisfy production criteria (e.g., mislabeling low-quality products; Feldbrugge 1984, 530). Estimates put the number of Soviet citizens engaging in the second economy at twenty million. During the 1980s, more than 80 percent of the Soviet population relied on the unofficial economy to satisfy their basic needs (Clark 1993, 73f.).

Given the Soviet Union's sophisticated surveillance system, few of these illicit activities escaped the attention of state and party officials. Yet they turned a blind eye on these wrongdoings, realizing that the black market fulfilled an important function insofar as it bypassed bottlenecks in the official economy (Staats 1972, 42; Schwartz 1979, 430f.; Altman 1989, 66f.). Moreover, state officials often took part in these illicit activities that provided them with a welcomed opportunity for blackmailing and racketeering (Simis 1977, 38; 1982, 75f., 80). In later years, the dynamic character of corruption led to less beneficial and outright detrimental behavior of officials. The absence of profit incentives induced state officials in the various planning committees to react to shortages by further reducing supply (Shleifer and Vishny 1992; Anderson and Boettke 1997). By choking off the distribution of raw material and finished goods, officials were able to profit from the greater willingness of state managers and customers to hand over bribes. Moreover, they could profit from windfall profits in the unofficial economy that substituted for the official shortages. This argument presupposes that corruption was organized along networks, connecting officials in various state agencies in mutually beneficial ways (e.g., *gosplan* officials and prosecutors overseeing the black market). According to Simis (1982) and Arkady Vaksberg (1991), these networks did indeed exist.

In addition to the illicit activities that accrued out of the unofficial economy, lower officials especially benefited from the over-regulation of society. In need of permits and licenses to move to another apartment, travel, register a car, and for other daily activities, citizens routinely came in contact with state officials. The latter took bribes "both for committing illegal acts [...] and for the fulfillment of duties which any public servant [was] obliged to perform regularly..." (Simis 1977, 38). Accordingly, an increasing number of Soviet citizens considered bribery to be a necessary and effective tool to 'getting things done' (Di Franceisco and Gitelman 1989, 472). Yet this did not necessarily imply that they were willing accomplices. In fact, Soviet citizens had little choice. With increasing levels of corruption among corrupt officials, who were protected by the highest levels, corrupt activities turned more and more into outright extortion (Simis 1982, 230f.). When party and state officials at the highest levels protected corrupt law enforcement officers and judges, the system turned into archaic entities responsible for outrageous atrocities against citizens who were forced into it.

[For example,] certain regions in Central Asia were converted into absolutist principalities ruled by terror, extortion, and bribery. In the most widely publicized case one director turned his giant state farm literally into a sovereign principality, thanks to the all powerful lord of Uzbekistan, Rashidov. The farm's 30,000 inhabitants became virtual slaves. [Tarkowski 1989, 57]

Acknowledging the magnitude of political, social and economic changes that followed the breakdown of communist rule, western scholars sometimes jump to the conclusion that the former elites were overwhelmed by the events of the late-1980s and early-1990s, being unable to maintain sway over succeeding events. Widespread

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<sup>4</sup> Little is known about the direct involvement of Moscow in the corrupt activities in the republics. At least, Moscow seemed to have tolerated corruption of the republics' leaders to secure their loyalty.

<sup>5</sup> A *tolkach* is a middleman who would pass on bribes on behalf of a state director to secure necessary supply material, as the latter could not rely on the official allocations, unless he wanted the production to stop.

corruption and the rise of criminal groups are often cited as indicators that state control had largely disintegrated (Solnick 1996, 1998; Roberts and Sherlock 1999; Bardhan 1997; Frisby 1998; Anderson 1995).

In contrast, other scholars argue that the former communist elite have, to a significant degree, been able to maintain control over the reform process and the informal networks of the past (Knabe 1998a, 1998b; Hellman 1998; Orenstein 1998; Reddaway and Glinski 2001). In fact, elite turnover in the state apparatus was low, and most top party officials had often simultaneously occupied positions in the CP and the state apparatus, allowing them to maintain high positions in the administration after the collapse of communism. The state apparatus, in turn, was a suitable vehicle for corrupt officials to pursue their goals, largely relying on long-established networks:

The fall of the communist regime brought the Soviet state down with it and the reconstruction of a system of government in Russia is a long and arduous business. Even so, public administration is holding its own with astonishing robustness. It has rapidly adapted and made use of the legal and political vacuum to play the major role in dividing the spoils from the Soviet state. [Mendras 1997, 118]

The privatization process in the former Soviet, for instance, was tainted by illicit activities that allowed the communist elite to reap the most valuable assets of the Soviet economy.

In the end, it cannot be determined with certainty to what degree the communist elite had lost control over the corrupt system. The extent of losing control depended on the country in question. For example, the communist leaders of most Central Asian countries have remained in power, only changing their political label. By relying on the existing structures of corruption and clientelism to distribute spoils among the various clans, they are able to cement their dominating position. The same form of control was likely lost in those countries in which political turmoil undermined the power and authority of post-Soviet leaders.

It is important to note that despite some larger governmental changes, the rules and norms of Soviet corruption have largely survived within the state apparatus, being embedded in corrupt networks that pervade the post-Soviet bureaucracy. Taking into account the political and socio-economic uncertainties of the early transition period, the resilience of corrupt networks is not surprising. Rapid socio-economic and political changes tend to strengthen patron-client relations. Confronted with an unpredictable future, people seek shelter in clientelist networks that provide a minimum of material security. These networks thereby show a great propensity to adapt to a new environment (Günes-Ayata 1994; Roniger 1994a, 1994b). Furthermore, the political elite deliberately utilized these networks to shore up political support.

In sum, the same rules and norms that characterized the Soviet system of corruption can still be found today in many post-Soviet states. Many public positions are still for sale, and lower officials pass bribes on to higher officials. In return, higher officials protect their inferiors from prosecution, relying on contacts with public prosecutors and judges. For example, an aspirant for a lower position in the Yerevan traffic police pays around \$2,000-3,000 to be hired. In addition, he pays about \$10 per day to his superior officer who shares a part of this payment with his superior and so forth. The traffic policeman extorts about \$35 in bribes on the street, leaving him with about \$500 a month, about ten times his official salary. In other words, he can recuperate his investment within four to six months. Needless to say, not taking part in the corrupt game or even worse blowing the whistle will get him out of his job, if not worse.<sup>6</sup> Dmitry Gelovani (1999), a Georgian journalist, aptly summarizes the 'code of honor' among Georgian police officials, which is probably also widespread among police officers of many other post-Soviet countries (including Armenia):

The mentality of the policeman, which has become above all the honour of the uniform, differs hardly at all from the mentality of the criminal: the greatest sin among policemen is considered to be not bribe-taking (that is something normal), nor beating the innocent (also something normal), but informing on a crooked colleague. In short, the Georgian police remains one of the little islands of totalitarianism.

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<sup>6</sup> Interviews with an Armenian journalist and an Armenia police officer (Yerevan: June 2003).

The rapid socio-economic and political changes inevitably contributed to a degree of de-institutionalization of corruption in the years after the fall of communism. Economic and political liberalization required corrupt officials to find new sources of illicit gains and to set new ‘prices’ for their services (e.g., by adjusting to the switch from barter to a cash economies). Moreover, political liberalization in some post-Soviet countries turned out to be at least an annoyance that required some preventive measures. At this point, however, it appears as if the Soviet system of corruption has managed to adapt to the new circumstances – to the detriment of those ordinary citizens who do not sit at the receiving end of the corrupt game, constituting a large majority of the population.

### **CORRUPTION, RIGHTS, AND THE ECONOMY**

Corrupt systems cement rules and incentives that undermine rational bureaucracy and the rule of law. In this way, systemic corruption *directly* and *indirectly* contributes to a whole range of human rights violations that scholars typically cite as signs of a failed transition towards democracy. Moreover, systemic corruption widens the gap between rich and poor through numerous mechanisms. Finally, informal rules of corruption and clientelism are detrimental to the development of a free market economy, which is considered to be a necessity for economic growth. The extent of damage done by corruption, however, depends on the control of the political leadership over the corrupt system, as we will see in the cases of Armenia and Georgia.

According to Robert Dahl (1956, 36), three forms of restraints are particularly effective in protecting the rights of citizens: constitutional checks and balances (division of power, horizontal accountability), social constraints (media, civil society, etc.), and psychological factors (political culture). The latter two restraints currently do not play an important role in the Soviet successor states – social constraints are only starting to develop, and much the same can be said about political orientations that cherish inalienable rights, justice, and equality. This makes the protection of rights largely reliant on formal institutional constraints, including the oversight that superior officials wield over inferiors and the control that one state agency exerts over another.

It is easy to see how corrupt networks that interlace different administrative levels and various state agencies undermine accountability. Even in established democracies are we able to find violations of official duties going unpunished within a state agency (e.g., a police department) due to a (wrong) sense of loyalty and camaraderie. In corrupt systems, camaraderie is supplemented by mutual material interests that discourage officials from reporting the wrongdoings of colleagues. In other words, loyalty and money stand in the way of superior officials’ formal oversight. Horizontal accountability – i.e., the control that one agency exerts over another – is less impaired by camaraderie. Yet mutual material interests remain the most important obstacle to institutional restraint in systems of corruption. For example, it is a widespread practice in post-Soviet legal systems that public prosecutors, judges, and defenders collude to elicit bribes from defendants and share the bribes equally among the three officials, making justice a commercial good. In this way, numerous violations of citizens’ rights are committed with impunity.

Yet corruption also contributes in very *direct* ways to the violations of citizens’ rights and liberties. For instance, human rights organizations in Georgia denounce the widespread practice of police officers who arbitrarily arrest and beat up citizens to extort bribes from family members of the victims (Human Rights Watch 1998; U.S. Department of State 2000, 5). Prison wards only deliver contributions from relatives after they have received a bribe; school teachers only pass students who gave a ‘gift’; and tax officials freeze financial assets to extort bribes. The list goes on and on and can be compiled for almost every post-Soviet country.

When comparing Georgia and Armenia, however, it is noticeable that Armenia’s society suffers considerably less from aggressive and violent forms of extortion. This might be related to the fact that Armenia is ethnically more homogenous so that social constraints on officials work more effectively. However, Georgia’s state representatives commit violent acts against ethnic Georgians and non-Georgians alike – social constraints are generally less prevalent in Georgia irrespective of ethnic affiliation. An important reason for the common practice of violent extortion is the sale of office, which has got out of control in Georgia. Selling public offices has led to a rapid expansion of the Georgian state apparatus (King 2001, 102) and especially the police force.<sup>7</sup> In turn, this has brought in thousands of new officials whose ethical standards are at best questionable. Moreover,

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<sup>7</sup> The police force in Georgia has likely more than doubled since the fall of communism to about seventy thousand. Yet the exact number of policemen in Georgia remains unclear – even to the government. The numbers presented here are estimates of human rights activists and a former legal advisor to the government.

the rising number of officials has increased competition for the extortion of bribes, thereby increasing the aggressiveness of officials.

In contrast, the violation of political rights through the use of illicit monies is less severe in Georgia than Armenia. Whereas in Armenia political power and economic resources are largely merged within the hands of the presidential clique, the political allegiance of Georgia's economic elite is not focused on either one party or one leader. Like in Armenia, money is used in illicit ways to bribe voters, influence election officials, and convince political opponents to drop out of a race. The difference is that these practices are much less effective in Georgia than in Armenia where they almost exclusively benefit pro-government parties and candidates. Moreover, whereas anti-government parties are particularly strong outside of Tbilisi (e.g., in the Adjara region), regional governments and local mayors in Armenia are to a large degree politically *gleichgeschaltet* – that is, their loyalty has been bought through mainly illicit means by the Armenian central government.

In regard to social equality, both countries have experienced a rising gap between rich and poor (UNU/WIDER 2000). Corruption has undoubtedly contributed to this trend. For instance, a corrupt official usually distributes a public good to the highest bidder. If this official administers social programs, “the poorest applicants are unlikely to obtain scarce public service” (UNDP 1997, 7f.). As David Bayley (1966, 728) puts it, “corruption causes decisions to be weighed in terms of money, not in terms of human need.” Furthermore, social funds are regularly misappropriated by greedy officials, for instance by pocketing the benefits of already deceased beneficiaries. Yet the gap between rich and poor has not been growing as fast in Armenia as in Georgia.<sup>8</sup> In addition to the successful privatization in Armenia of agricultural land, Armenia has been able to guarantee sufficient revenues to maintain minimal welfare provisions. Georgia, in contrast, regularly fails to meet its budget goals. Georgian officials are notorious for embezzling public money by taking bribes for reducing citizens' and companies' tax arrears. Despite regular warnings and occasional penalties by the International Monetary Fund (IMF), the Georgian government has been unable to tackle this problem, merely extracting 8 percent of the country's GDP (in contrast to 13 percent in Armenia, which is still far below the 30 to 50 percent in western countries).<sup>9</sup>

The unruliness that characterizes the Georgian state apparatus has also caused the Georgian economy to grow much slower than the economies of other post-Soviet countries. A severe obstacle to economic growth in Georgia are the low levels of domestic and foreign investment. Lack of investment is a typical outcome of decentralized corruption. As Shleifer and Vishny (1993) argue, in the absence of a central authority that coordinates the extortive demands of bureaucrats, the officials are unable to control the amount of bribes that business owners have to pay in sum. Bureaucrats find themselves in a classical prisoner's dilemma in which everyone takes as much as he or she can. In the end, citizens are discouraged from starting a business and already existing businesses go bankrupt, with net losses for citizens, bureaucrats, and the economy. According to Armenian businessmen, this seems to be less of a problem in Armenia.<sup>10</sup> Here, the central government has been able to discipline state agencies and officials – in sharp contrast to the feebleness of Georgia's government.

In short, corruption in Georgia resembles a run-away-train. State officials compete in a frantic search for illicit gains untroubled by the central government. Moreover, Georgia's powerful business clans have either formed oppositional parties (e.g., Industry Will Save Georgia, a party formed by a local beer magnate) or fund opposition parties. The consequences of this almost anarchic system of corruption are disastrous for the economy and the protection of citizens' rights and liberties. However, the inability of the Georgian leadership to fuse political and economic power has permitted the development of a limited pluralist system in which opposition parties find the financial resources to compete against the pro-presidential camp.

In contrast, Armenia's corrupt system is to a large extent controlled by the central government that, in turn, is led by the president. This control extends to all state branches and agencies, most regional and municipal administrations, and the powerful business and financial clans that dominate the economy. This fusion of political and economic power has not allowed for much democratic (that is, fair) competition. On the other hand, the central control over the corrupt system has somewhat limited the excesses of corruption, such as massive violations of citizens' civil rights and the deterrence of investment.

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<sup>8</sup> According to UNU/WIDER (2002), in 1997 income inequality was about 20 percent less in Armenia than in Georgia.

<sup>9</sup> Interviews with IMF officials in Tbilisi and Yerevan (March-Mai 1999 and June 2003, respectively).

<sup>10</sup> Interviews conducted in Yerevan (June 2003).

The consequences of centralized and decentralized systems of corruption for Armenia and Georgia, respectively, are summarized in the following table:

	<i>Armenia</i>	<i>Georgia</i>
<i>Political Development (FH)<sup>1</sup></i>	4.09	3.82
<i>Economic Growth<sup>2</sup></i>	7.34/6/12.9	2.9/1.8/5.4
<i>Foreign Investment<sup>3</sup></i>	76.6/34.73	53.06/26.22
<i>GINI Coefficient<sup>4</sup></i>	43.14	51.86
<i>State Revenue as % of GDP<sup>5</sup></i>	16.39	11.88

<sup>1</sup>Average Political Freedom rating 1993-2003; <sup>2</sup>GDP growth (annual %) 1998/ 2000/2002; <sup>3</sup>Foreign Direct Investment, net inflows (BoP, current \$) per capita in million 1998/2000; <sup>4</sup>1997; <sup>5</sup>1997 (official government figures – real figures are likely much lower)

### **MODES OF TRANSITION & CENTRALIZATION OF CORRUPTION**

Assuming that the corrupt systems of both Armenia and Georgia were highly centralized during Soviet times, one may wonder why these systems under similar socio-economic conditions have taken different routes – namely, remaining centralized in Armenia, and turning into a decentralized system in Georgia. A closer analysis of the post-Soviet years reveal that the mode of transition has had a significant impact on the political leadership's ability to regain and maintain control over the corrupt system.

In order to explain the likely short- and long-term outcomes of democratic transitions, an influential school within the literature on democratic transition and consolidation focuses on the strategies of political elites and the bargaining patterns between them during the disintegration stage of authoritarian regimes (O'Donnell and Schmitter 1986, Karl and Schmitter 1991, Munck 1994). Dismissing the importance of social and economic conditions, adherents of this school argue that the most stable outcome of democratic transitions happens if the representatives of the old regime and the democratic opposition negotiate a peaceful transfer of power without eliminating the former elite in the new (democratic) regime. These negotiated or 'pacted' transitions, however, rarely lead to the emergence of fully democratic regimes, as Terry Karl (1990, 14) argues: "In essence, they are antidemocratic mechanisms, bargained by elites, which seek to create a deliberate socio-economic and political contract that demobilizes emerging mass actors while delineating the extent to which all actors can participate or wield power in the future." Nevertheless, pacted transitions – due to their cooperative nature – guarantee a peaceful transfer of power without provoking temporary power vacuums that undermine state authority.

Yet negotiated transitions are not always an option. If neither a reform wing within the authoritarian leadership nor an organized opposition has had enough time to develop sufficient organizational and political capacities to assume and defend political leadership, a power vacuum is the likely outcome of the breakdown of the previous regime. In short, political unrest in the form of street demonstrations and strikes might bring down the current leadership without creating a strong and unified opposition movement that utilizes the opportunity to create a stable alternative to the former regime (Stepan 1997; Linz and Stepan 1996, 47ff.).

The second type of transition applies to Georgia. During the 1980s, Georgia's various independence and nationalist movements had become increasingly visible. Yet the brutal repression of these movements did not allow these movements to organize effectively and coordinate their efforts. At the same time, repression did not strengthen the ailing communist leadership, but accelerated its loss of legitimacy among the citizenry. When the communist regime finally imploded in 1990/1991, the new leadership under President Zviad Gamsakhurdia was unable to shore up any substantial support from either the former communists or the divided nationalist movements. Within a few months, Georgia sank into chaos, culminating in a civil war, which ousted

Gamsakhurdia without producing a viable successor. Loss of central authority also led to the outbreak of two ethnic wars that resulted in the *de facto* independence of South Ossetia and Abkhazia. These wars have deeply divided the Georgian society with immediate and long-term political consequences.

The political ascendancy of Eduard Shevardnadze in the mid-1990s brought with it a short period of political and economic stability. By skillfully uniting the former communists and young reformers behind his cause (and within his party, the Citizens' Union of Georgia, CUG), President Shevardnadze was able to impose some order on parts of the country and gain the approval of both citizens and members of the political and economic elite. However, his political *fortune* was only short-lived. His diffident leadership style and his inability to move the country beyond poverty, corruption, and stagnation increasingly undermined his authority. The disintegration of the CUG and rising crime rates attest to his loss of political leadership. Without a viable successor in sight, today's Georgia again faces the abyss of political turmoil and economic collapse.

The future of Armenia looks distinctly less bleak. Since independence in 1991, Armenia has enjoyed considerable political stability. The transition from Soviet rule was conducted in a manner of compromise and mutual respect. The opposition was largely united behind the Armenian National Movement (ANM) whose primary target was Moscow, which refused to settle the struggle between Azerbaijan and Nagorno-Karabagh in favor of the Armenian majority in Karabagh. In contrast to Georgia, it was not so much the local leadership that provoked the opposition. In fact, Armenia's communist leadership tacitly approved of the ANM's demand for Karabagh's independence from Azerbaijan. The Karabagh crisis created something close to a national consensus that subsequently facilitated the negotiated transition from the communists to the ANM under the leadership of Levon Ter-Petrosian. Indeed, the ANM "included many Communist Party members and, once in government [...], it distributed some ministerial portfolios to members of the old communist elite" (Herzig 1999, 13).

After his election to the presidency, Ter-Petrosian was able to keep the country united behind his leadership for several years. In this effort, he was supported by the disciplining and unifying effect of the Karabagh War, which lasted from 1991 until 1994. Although Armenia was not officially involved in the war, Armenian paramilitary forces supported the Armenian's of Karabagh. Political stability was threatened only twice. In 1998, several governmental ministers, including the Prime Minister Robert Kocharian, ousted Ter-Petrosian and replaced him with Kocharian, who was re-elected in 2003 under undemocratic circumstances. A year later, the prime minister and the leader of the governing coalition, along with other politicians, felt victim to a terrorist attack during a parliamentary meeting. In a way, the 1999 event restored political stability, as the prime minister and most members of his cabinet opposed Kocharian, which led to a political deadlock. At this point, Armenia's political stability and economic recovery appears to be tenable under the leadership of Kocharian and his Defense Minister Serge Sarkisian who rule Armenia in a largely authoritarian manner.

This political control allowed Ter-Petrosian and his successor to hold sway over the corrupt system. Considering their authority, it would have been possible to dismantle the corrupt system, but this was neither in their political nor material interests.

The government's basic strategy was to create extensive patron-client networks. Building on connections they had developed during the war years, ANM leaders acquired influence among substantial groups of industrialists, businessmen, and bureaucrats. By pledging loyalty to their patrons and involving them in the profitmaking of a business or a government strategy, these individuals were assured survival in Armenia's uncertain economic and political climate. [Bremmer and Welt 1997, 83f.]

These networks are maintained by the current leadership under Kocharian. In the 2003 presidential and parliamentary elections, for example, pro-government parties spent large amounts of money, exceeding the legal spending limits by a multiple. According to accounts of an OSCE official, the trail of money clearly led to the top business oligarchs in Armenia. In return, the government guarantees the oligarchs protection against potential competitors. In short, the Armenian post-Soviet leadership took over a corrupt system that it utilized for political and economic ends, adding new members to it, and thereby adapting the system to changing circumstances.

This degree of centralization can scarcely be found in Georgia. Between 1991 and 1994, the political and economic situation in the country was almost anarchic. The central government in Tbilisi had little political and military control beyond the capital, and the privatization process proceeded more or less spontaneously, allowing various groups to accumulate tremendous wealth. Among these groups were several paramilitary units, which

Shevardnadze only got in hand in 1995. By that time, Georgia's corrupt system had largely decentralized with the main oligarchic groups centering on several governmental ministries. In order to restore order in the country, Shevardnadze had to rely on these ministries, making it imprudent for the president to create new powerful enemies by going after corrupt ministers. In other words, Shevardnadze secured political allegiance by selling off top state positions to certain clans. Jaba Devdariani (2001), a Georgian journalist, aptly summarizes Shevardnadze's dilemma:

Interior and security ministry forces played important roles in helping President Shevardnadze regain power in Georgia in 1992, and then in stabilizing the country during the mid 1990s. However, many Georgians believe that in recent years the power ministries [Interior, Defense, and State Security; C.S.] had emerged as obstacles to reform. Some also worried about the Interior Ministry's ability to influence domestic policy.

When Shevardnadze's position further weakened in the late-1990s, his ability to control the country's system of corruption was even further limited. When I interviewed a close advisor to Shevardnadze in 1999, asking him why Shevardnadze would not discipline ministers who were commonly known to be corrupt, he responded that Shevardnadze could not politically afford to lose another powerful individual to the opposition.<sup>11</sup> In sum, Georgia's current leadership lost valuable time in trying to get control over the corrupt system. By the time Shevardnadze acquired political authority; powerful groups had already occupied key positions within or close to the state apparatus. In order to secure their support and limit their influence, he could only pay and balance them off against each other. Yet he never acquired efficient control over them, making his publicly proclaimed fight against corruption an empty promise.

### CONCLUSION

This study has treated corruption as an important intervening variable in post-Soviet political and economic transitions. Corruption had become systemic under Soviet rule and its basic rules and norms have survived the rapid socio-economic and political changes of the late-1980s and early-1990s largely unharmed – in a way, these rapid changes reinforced the corrupt networks, which provided shelter from the uncertainties of rapid transitions. Nevertheless, with the disintegration of the dominating Communist Party, the new leaderships of the successor states were in danger of losing the vehicle that had allowed the previous elites to control the corrupt system, which then could have turned into a free-for-all.

In the authoritarian successor states (e.g., Uzbekistan, Kazakhstan, and Belarus), this was not an immediate threat, as the regime change was imposed from above, and the old leadership retained its power. In the semi-democratic countries of the Caucasus (Armenia and Georgia), however, the future of the corrupt systems was less predetermined. In Armenia, the negotiated transfer of political power allowed the new leadership to maintain central control over the corrupt system. In contrast, the restoration of authority in Georgia took several years, which allowed groups to cement their influential positions in the state apparatus and the economy. The new leadership under Shevardnadze was in no position to regain full control over the corrupt structures to either abolish (Shevardnadze's proclaimed goal) or take political and material advantage of them. In short, the transition left Armenia's system of corruption centralized, but decentralized Georgia's one.

In turn, the consequences of systemic corruption are a function of the level of centralization. In Armenia, the fusion of financial resources and economic power have turned democratic institutions, like free and fair elections, into a farce. At the same time, the Armenian leadership is able to constrain corrupt practices to a degree that permits the economy to grow and the state to secure revenues. Moreover, the corrupt apparatus appears to be disciplined to an extent that corruption rarely causes violent or deadly practices of extortion. Georgia offers a reversed picture. Its decentralized system of corruption has spread financial resources among pro- and anti-governmental groups, opening the doors for political competition – albeit not a fully democratic one. Yet the decentralized systems of corruption has created an almost anarchic environment in which corrupt state officials prey on businesses and citizens in the course of which civil liberties and socio-economic rights are violated at a massive scale.

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<sup>11</sup> Interview with Roman Gotsiridze, Head of the Budget Office of the Parliament of Georgia (Tbilisi: Marcy 25, 1999).

What is the likely political future of these two countries and their systems of corruption? Georgia has seen its fair share of the rise and fall of (self-proclaimed and also honest) reformers. It was their inability to rid their country from corrupt structures that often led to their demise. For instance, Mikhail Saakashvili, a young lawyer, was a leading reformer within the ruling party, publicly condemning widespread corruption among his colleagues. When he became Justice Minister, he immediately announced far-reaching anti-corruption strategies. However, his bills were thrown out in the Cabinet of Ministers, and his practical steps to discipline corrupt officials did not result in any major sentences. Frustrated, he resigned after only a few months in office. Saakashvili's fate shows that the rise of reformers is possible in Georgia, but it also shows that the advent of reformers will remain largely ineffectual.

In Armenia, it is rather unlikely that honest reformers are able to move their way up through the corrupt apparatus to top positions. Without the support of patronage networks, Armenian politicians are unlikely to gain power, but relying on these networks also means to become part of the corrupt system. Change needs to come from the top. If Kocharian and his government became convinced that it was beneficial for them to rid the country of systemic corruption, democratic change would be possible. Georgia, in contrast, does not even have this chance, taking into account that the corrupt state apparatus has largely rid itself from central governmental authority.

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