

**Impact of Varying Sequencing of Post-Communist Economic  
Reforms on Construction of Democratic Societies in the Republic of  
Georgia and Ukraine**

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**Abstract:**

The given research paper examines the effects of initial economic reforms in the post-Socialist transition paths of Ukraine and Georgia. Using the evaluation criteria from the Economist Intelligence Unit, the author argues that Ukraine has become relatively more democratic country than Georgia and identifies the intensity and sequencing of initial economic reforms as the primary reason for explaining various stages of democratization processes in comparably equivalent, in terms of initial political, social and economic starting points, countries of Georgia and Ukraine. Furthermore, the paper incorporates a discussion of potential alternative explanations for political divergence between the two countries and argues that none of the alternative assertions are significant enough to account for the observed political differences. The author develops a chain of arguments that explain the relationship between varying implementations of economic reforms and ensuing results on democratization of political processes in the two countries.

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## **1. Introduction:**

The study of transitional economies of the post-Socialist states has generated a considerable interest from political scholars, anthropologists, economists and academicians in the field of social transformation. Due to complexity of its nature and ongoing process of institutional transition and adaptation, study of the post-Socialist transformation revolves around a number of economic theories and analytical interpretations, some of which are conflicting at times. In order to clearly understand the progress of transformation in the transitional countries, it is important that one considers the pre-existing socio-political and economic factors, the Communist institutional framework, strategic incentives of the post-Socialist states, effects of dissolution of the Socialist regime on populations resulting in heavy output fall and realignment of wealth and national assets, and, most importantly, particularities of democracy building processes in the post-Communist states.

The Collapse of Communism and break-up of the Soviet Union constitutes a fundamental historical event at the end of the twentieth century.<sup>1</sup> Dissolution of Communism created newly established independent states and generated a process of political hardships and economic struggles in the former Socialist countries. Resulting intensified inequalities, social dislocations and human insecurity have coincided with a redefinition of the political in the emerging world order.<sup>2</sup> Varying success of the post-Socialist countries in terms of level of transitional development and ability to rebound from initial economic collapse resulting in stabilization and growth of economy provides us with sufficient tools in terms of understanding the specific

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<sup>1</sup> Stiglitz, J. E. (1992), "Another Century of Economic Science", in Hey, J. D. (ed.), *The Future of Economics*, Blackwell, Oxford: p. 137

<sup>2</sup> Gill, Stephen. "Constitutionalizing Inequality and the Clash of Globalizations". *International Studies Review*, Vol. 4, No. 2, *International Relations and the New Inequality*, 2002, pp. 49

nuances of political and economic transformations in these countries. The relative success of the Central European and Baltic states in terms of mobilization of their institutional structures and integration into the EU creates basis for comparison and analysis with the previously institutionally similar post-Soviet states that are still struggling in terms of maintaining a steady economic growth and combating market constraining elements created as a result of the economic collapse.

However, what is universally interesting as a topic of study is not the effect of communist dissolution on economic and political elements, but rather realignment and/or shift, if you will, in re-construction of social networks and adaptation of national mindsets and judiciaries to changing political and economic environments. Indeed the study of political specificities and economic discrepancies is a useful tool for constructing the whole picture and applying potential solutions to existing problems. Furthermore, understanding the changes in social dealings and human interactions can serve to be a useful kit in deriving the driving forces behind political and economic meltdowns.

The extent of change in social mindsets of post-Soviet people, on the other hand, depends on the level of social atomization/association stemming from the effects of varying economic reforms. Indeed, understanding the specificities of economic reform effects on social dealings and public participation in political processes of a country can help us better comprehend specificities of democracy building, or lack thereof, in that country.

## 1.1 Thesis Outline:

In this paper, I will try to address specific issues of change/shift in attitudinal matrices of post-Soviet people of Georgia and Ukraine and examine the effects of such change(s)/shift(s) on the development of the political and economic infrastructures in Georgia and Ukraine. The key to uncovering the mysteries of the post-Socialist developments, or lack thereof, could be found in truly understanding preference and incentive structures of individuals and ensuing impact on democratization processes of politics in Georgia and Ukraine.

Almost 18 years removed from the dissolution of the Soviet Union, we can observe that the choice of intensive economic reforms against those of gradual kind only had a short-term impact on an economic performance of a country. The Georgian and Ukrainian economies, with similar starting points in the early 90s, diverged for the period 1991-1997, and started converging soon after, while demonstrating a similar trend of economic growth. Therefore, one could conclude that the choice of intensity and sequencing of initial economic reforms had little or no impact on the long term growth of respective economies.

Despite the fact that the choice of intensity and sequencing of initial economic reforms was relatively insignificant in terms of long-term economic growth of Ukraine and Georgia, one should note that divergence in political climates of two countries is interesting to observe. While sharing a similar starting point in terms of institutional framework and level of democratic governance due to membership in the Communist regime, Georgia and Ukraine are yet to converge in terms of achieving similar characteristics of democracy and decision-making processes. Hence, one could argue that the choice of intensity and sequencing of economic

reforms had direct effect on formation of democracy in respective countries. Georgia, which embarked upon rapid liberalization and privatization processes, is still in search of democratizing its institutional framework, judiciary system and extent of governance, while Ukraine, which undertook the gradual reforms sequenced over a longer period of time, seems to be on a faster and a more successful track to implementing the democratic principles in its political structures.

## **1.2 Research Question**

Why did different sequencing of the same economic reforms in economically, politically and structurally similar countries of Ukraine and Georgia produce different outcomes in terms of construction of a democratic society?

## **1.3 Research Methodology**

The research is based on the method of process tracing and comparative case study analysis of Georgia and Ukraine. It outlines the fundamental points of political, economic, social and structural convergence between the two countries that directly affect the process of democratization. This paper argues that most significant factors characterizing both countries before the shift to the transitional path and playing important role for democracy building were for the most part similar and identifies extent of initial economic reform sequencing as an independent variable, which, keeping all the other variables constant due to pre-transition convergence, led to different outcomes in the dependent variable, extent of democracy achieved in a country. In case divergence is found in some variables that could potentially be the source of divergence in level of achieved democracy and therefore threaten validity of the given research argument, a shadow case with similar characteristic on the non-complying divergent variable will be introduced to compare its effects on the dependent variable to illustrate that such non-

complying variable is irrelevant to dependent variable and therefore it could be either held constant or removed from the contrast of Georgia and Ukraine in the case study altogether.

#### **1.4 Relevance of the Research Question**

Almost two decades away from the break-up of the Soviet Union, its former member states find themselves in uneven and varying stages of democratization. While some of those member states, namely the Baltic countries, managed to bounce back relatively swiftly from the initial economic and social shocks and achieve a considerably full-scale democratization, all the other member states are in the process of either democratizing themselves or restructuring their political and economic schemes of functioning. In the literature of post-Soviet developments much has been said about the underlying causes of varying fates of ex-Soviet countries, and effects of initial economic reforms are widely considered as significant factors shaping the resulting course of a country's economic transition and political transformation process.

#### **1.5 Reasons for choosing the case study**

After familiarizing myself with some part of the available literature on the topic, including reports from the International Financial Institutions, I have come to realize that the cases of Georgia and Ukraine are similar to one another in multiple aspects. Both countries had similar starting points in post-Soviet transition not only in terms of pre-existing structural and institutional legacies, but economic composition and performance as well. While structural and institutional similarities are self-evident as both countries stem from the same political regime, consideration of economic resemblances yields an interesting pattern. In fact both economies were convergent at the break-up of the Soviet Union, diverged during the periods of 1991-1997



and then converged to follow an almost identical pattern of economic development. While the economic divergence during the specified period is significant in itself and can explain various transitional processes in both countries, the reasons (big bang vs. gradual) and consequences (society atomization vs. marginal civic de-unification) of such divergence provide answers to issues of varying institution building, civic involvement and role of the government, and consequently the dissimilar developments in the democratization processes in these two countries.

### **1.6 Alternative Findings to the Research Question**

While most scholars agree that impacts of initial economic reforms are relevant to the discussion of post-Socialist transition, higher emphasis are placed on the role of Russian political and economic influence on the post-Soviet countries, Proximity to West and composition of neighboring countries, character of territorial and ethnic conflicts, patronage from the EU and/or the US, production specialization and availability of natural resources, as the variables that superiorly explain the specificities and features of country's post-Soviet transformation.

### **1.7 Research Limitations**

The proposed research was very challenging in multiple aspects. The biggest constraint was the availability of information. Other researchers interested in the concepts of post-Soviet transformation regularly outline the fact that due to the hectic and intricate political developments in the early 90s the accessible data is limited. Furthermore, reliability of available information is a potential danger to the research as many of the economic indicators are deficient due to existence of underground economy and manipulation of statistical data by the contemporary governments in the 1990s.

Furthermore, the data attained from the International Financial Institutions and the statistical offices in Georgia and Ukraine had to be accurately standardized and adjusted to a common nominal denominator in order to make comparative analysis applicable versus inflation and exchange rate levels for different years.

Apart from the lack of access to economic data, dissection of political and institutional developments were difficult to examine as such developments were usually undertaken behind closed doors and extent of rent seeking and corruption is difficult to determine. In order to address this problem and minimize the margin of error from such shortcomings, I undertook several questionnaires with political journalists and scientists in Georgia and Ukraine, as well as with respectful international scholars who have studied the relevant developments for the given period and given countries.

## ***2. Post-Soviet Transformation and Economic Reforms***

The break-up of the Soviet Union was significant in multiple aspects. Removal of the centralized command economy and dissolution of the common trade market created severe economic problems and impoverishment of newly independent states. The countries like Georgia and Ukraine found themselves in a challenging situation of having to overcome the fiscal, social and political dilemmas solely through their national capabilities and without the support from the powerful central system, on which the economies of these respective countries were built and revolving around.

The economic collapse and deterioration of state infrastructures, no longer supported by the power of the Communist party and incompatible with the newly developing political processes of state independence and self-governance, created the need for realignment of economic policies and recovery of the lost economic potential of a country. The economic reform packages of stabilization, liberalization and privatization strategies were designed to jump start slowing economies and ensure efficient functioning of production capacities by removing centralized economic directives, liberalizing market-like structures and transferring property ownership into the hands of individuals.

While the applied reform packages proved to be successful in their function of prompting economic growth and achieving stable long-term development (please refer to Appendix 1, tables 1.1 and 1.2 provide for similarities in GDP and Inflation parameters and outline a comparable pattern of economic growth over a long stretch of time), the introduction of the given reforms produced immediate adverse effects on the populations of the post-Soviet states and led to deterioration of political structures. Due to uniqueness of the Soviet system, the lack of appropriate knowledge to deal with the emerging political and economic problems and weakness of state resources to cope with ongoing radical changes, most post-Soviet countries experienced further economic decline and consequent atomization of their populations.

Furthermore, the negative short-term effects of economic reforms further weakened already fragile state's ability to maintain sufficient levels of fiscal management and political leadership. As a result, the institutional framework of a state collapsed and had to be built anew. Decline of state power and ensuing institutional chaos led to public distrust in the management system, lack of collective action through participation in elections, severe information asymmetry, and

emergence of opportunities for state capture and promotion of selfish individualist interests. Such developments translated into the lack of civil participation, heavy corruption and rent-seeking, government power abuse and deficiency of appropriate preconditions for building a democratic state.

## **2.1 Literature Overview**

The topic of post-Socialist economic reforms has widely dominated the discussion of the post-Soviet transition era. Several economists, anthropologists, historians, sociologists and representatives of other science fields have joined political scientists in the debate on determining the primary underlying factors and consequences of economic and political meltdowns in many post-Socialist countries during the early-mid 1990's.

The elements of civic participation, size of government, development of democratic essentials, economic growth and sequencing of transition reforms are identified as main catapults in spearheading social, political and economic developments in much of Eastern Europe and former USSR republics.

Most of the discussion evolves around the rationality of government and its ability to maximize social utility by identifying the optimal preference matrices for its electorate (see Stephan<sup>3</sup>, also

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<sup>3</sup> Stephan, Paul. "Rationality and Corruption in the Post-Socialist World" University of Virginia Law School, Legal Studies Working Paper No. 99-11. June 1999, p.27

Nelson<sup>4</sup>; as well Przeworski<sup>5</sup>). This argument has prompted a division of opposing camps of scientists that are split on their definition of a good government.

The Neoclassical Economic theory argues that, because getting involved in micro-economic aspects of state management leads to a negative state, irrationality can be corrected only through a minimalist state.<sup>6</sup> The followers of the Pluralist school of thought state that existence and competition of different interests leads to a system of checks and balances, which prevents those in government from abusing power, and hence results in more efficiency.<sup>7</sup>

Incorporation of democracy building, economic restructuring, development of civic society and building of a new nation state after the collapse of the USSR are closely intertwined and linked with one another. Ukrainian scholar Taras Kuzio develops a theoretical framework that summarizes all four aspects of what he calls “quadruple transition”: political and economic reform, state and nation building.<sup>8</sup> Several scholars agree with Kuzio and state that the major reason for economic and political meltdowns in the early 1990’s was caused because all four processes mentioned above occurred simultaneously in the former USSR republics.<sup>9</sup> Furthermore, Linz and Stepan argue that simultaneity of, and incongruity between,

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<sup>4</sup> Nelson, Joan “Social Costs, Social Sector Reforms, and Politics in Post-Communist Transformations. In: Joan Nelson, Charles Tilly, and Lee Walker, eds., *Transforming Post-Communist Political Economies*. Washington D.C. : National Academy Press 1997, p. 252

<sup>5</sup> Przeworski, Adam “The Political Dynamics of Economic Reform”. In: *Democracy and the Market. Political and Economic Reforms in Eastern Europe and Latin America*. Cambridge University Press 1991, p. 144

<sup>6</sup> Kornai, Janos. “What the Change of System From Socialist to Capitalism Does and Does Not Mean?” *Journal of Economic Perspectives*, Vol 14, Winter 2000, p. 29

<sup>7</sup> Arnsperger, Christian. “Critical Political Economy: Complexity, Rationality and the Logic of Post-Orthodox Pluralism”, Routledge: Taylor and Francis Group, 2008, p. 24

<sup>8</sup> Kuzio, Taras. "Transition in Postcommunist States: Triple or Quadruple?" in "Politics," Vol. 21, no. 3 (September) 2001, p. 108

<sup>9</sup> Roeder, Philip. "Peoples and States after 1989: The Political Costs of Incomplete National Revolutions," in "Slavic Review," 1999, Vol. 58, no. 4 (Winter), pp. 861

democratization and economic liberalization were the primary challenges to the transition process.<sup>10</sup> On this note, Kuzio states that state institution and civic nation building are incompatible and contradicting with democratization and liberalization processes.<sup>11</sup>

When it comes to sequencing of the above-mentioned four processes, some argue that the proper cycle for transition must start with state and nation building first, followed by economic liberalization and establishment of market economy, and concluded with a process of democracy building.<sup>12</sup> Steven Cheung concurs with this suggestion and claims that introduction of democracy during the highly turbulent period of transition may lead to inferior outcomes.<sup>13</sup> Aware of this argument, Alexander Gerard claims that introduction of democracy at early stages of transition is dangerous, because democratic procedures in transitional contexts either serve to reduce uncertainty through the rule of law or generate increased uncertainty and unpredictability.<sup>14</sup>

While some believe that democracy is not a necessary condition for high economic growth<sup>15</sup>, others claim that Democracy facilitates economic liberalization and thus has a positive, though

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<sup>10</sup> Linz, Juan., and Stepan, Alfred. "Problems of Democratic Transition and Consolidation. Southern Europe, South America and Postcommunist Europe" Baltimore: John Hopkins University 1996

<sup>11</sup> Kuzio, Taras. "National Identity and Democratic Transition in Post-Soviet Ukraine and Belarus: A Theoretical and Comparative Perspective". Eastern European Perspectives. Vol 4, No 15, 2002, p. 12

<sup>12</sup> Kuzio, Taras. "National Identity and Democratic Transition in Post-Soviet Ukraine and Belarus: A Theoretical and Comparative Perspective". Eastern European Perspectives Vol 4, No 15. 2002, p.12

<sup>13</sup> Cheung, Steven. "The curse of democracy as an instrument of reform in collapsed communist economies". Contemporary Economic Policy 16, 1998, pp. 247.

<sup>14</sup> Gerard, Alexander. "Institutionalized Uncertainty, the Rule of Law, and the Sources of Democratic Stability", Comparative Political Studies, 35, 10, December 2002, pp. 1157

<sup>15</sup> This argument is illustrated through the example of Chinese Economic progress in the recent years. For more please refer to Intrilligator, Michael. "Democracy in Reforming Collapsed Communist Economies: Blessing or Curse?" Contemporary Economic Policy 16 April, 1998, p. 242

indirect, effect on growth.<sup>16</sup> The latter argument is supported by Londregan and Poole, who have found that Democracy is positively correlated with economic development, and argue that as countries become more affluent, they also become more democratic<sup>17</sup>. Furthermore, Rodrik argues that democracy leads to economic growth because it decreases economic uncertainty, facilitates more favorable institutional outcomes and better prepares for response to adverse economic shocks.<sup>18</sup> In terms of institutional adaptation, democracy ensures that property rights are guaranteed and is therefore a necessary precondition for sustained long-term growth.<sup>19</sup>

Relationship between democracy and economic growth is especially crucial in the discussion of post-Soviet economies that experienced severe output contractions after the collapse of the Soviet command economy. Several reasons are suggested for drastic economic collapse and output decline. Some scholars have argued that restrictive fiscal policies and credit crunch are largely responsible for the initial output fall.<sup>20</sup> On the other hand Blanchard and Kremer argue that disruption of the Soviet-style supplier–buyer relationships due to emergence of asymmetric information regarding commercial options in bargaining accounted for the initial output fall.<sup>21</sup> Whereas some argue that economic policies and information asymmetry had little to do with

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<sup>16</sup> Dethier, Jean, Ghanem, Hafez. and Edda Zoli. “Does Democracy Facilitate the Economic Transition? An Empirical Study of Central and Eastern Europe and the Former Soviet Union.” *Journal for Institutional Innovation Development and Transition (IB Review)* 3, 1999, p. 18

<sup>17</sup> Londregan, John and Keith Poole. “Does High Income Promote Democracy?” *World Politics* 49, 1996 p. 22

<sup>18</sup> Rodrik, Dani. “Institutions for High-quality Growth: What They are and How to Acquire Them?” CEPR Discussion Paper No. 2370. Centre for Economic Policy Research, London, 2000, p.13

<sup>19</sup> North, Douglas. “Institution, Institutional Change and Economic Performance”. Cambridge University. Press, Cambridge, UK1990. p. 72

<sup>20</sup> Calvo, Guillermo and Fabrizio Coricelli. “Output Collapse in Eastern Europe: The Role of Credit”. *IMF Staff Papers* 40, 1993, p. 38

<sup>21</sup> Blanchard, Olivier and Michael Kremer. “Disorganization”. *Quarterly Journal of Economics*, 1997, p. 1112

output fall and blame economic contraction on initial conditions and macro-economic instability, while arguing that effect of liberalization reforms on growth were overwhelmingly positive.<sup>22</sup>

Discussion of suitability of various economic reforms draws the most controversial and heated debate in the post-Socialist transition literature. Some argue that due to immediate expectations of the public to achieve political and economic success by sustaining growth and achieving democracy, created a threat of electoral backlash, which itself imposed an important political constraint on the ability of a government to implement necessary radical economic reforms<sup>23</sup>. On the other hand, the lack of democracy can shield political elites from opposition and popular backlash, and, thus, may help them implement efficiency-enhancing reforms, but could also facilitate rent seeking.<sup>24</sup> Furthermore, lack of democracy may lead to inefficient institutions and “locked in” economic policies.<sup>25</sup>

Schroeder argues that public ready to tolerate the initial hardships of adjusting to a country's new status and institutional set-up is vital to implementing effective reforms and sustaining the process of achieving economic progress.<sup>26</sup> A government is legitimate to the extent that the population considers it to be providing an adequate order and believes that no obtainable

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<sup>22</sup> Krueger, Gary and Marek Ciolko. “A Note on Initial Conditions and Liberalization During Transition”. Journal of Comparative Economics 26, 1998. p.730

<sup>23</sup> Roland, Gerard. “Transition and Economics: Politics, Markets, and Firms”. MIT Press, Cambridge, 2000, p. 212

<sup>24</sup> Hillman, Arye and Heinrich Ursprung. “Political Culture and Economic Decline”. European Journal of Political Economy 16, 2000, p. 201

<sup>25</sup> Hellmann, Joel. “Winners Take All. The Politics of Partial Reform in Postcommunist Transitions” *World Politics* 50, January 1998, p. 211

<sup>26</sup> Schroeder, Gertrude. "On the Economic Viability of New Nation-States," Journal of International Affairs Vol. 45, no. 2, Winter 1992, pp. 563.



alternative would be greatly superior'.<sup>27</sup> Particularly noteworthy for the legitimacy and success of newly democratized regimes is the confidence that citizens place in governmental institutions that officially assert to represent them.<sup>28</sup> Therefore, a favorable inclination to democracy is essentially tangled with assumptions about the kinds of social and economic outcomes a democracy ought to produce.<sup>29</sup>

Quality of social institutions, existence of interest groups and their bargaining leverage to influence important public and strategic decisions is important for efficient development of a country. Munck argues that socio-cultural pluralism, strong civil society, and strong independent economic actors were absent in post-Soviet countries after the dissolution of communism and civil society, therefore, has to be "reinvented" and not simply resurrected.<sup>30</sup> Some scholars have placed Ukraine under the category of a delegative democracy, where citizens are only active during elections but remain passive in between them.<sup>31</sup> The absence of large-scale social unrest in Georgia is less an indication of the absence of objections and more a matter of confusion and inconsistency in the manner in which blame is distributed among the national state, local authorities or other actors.<sup>32</sup>

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<sup>27</sup> Fish, Michael. "When More Is Less: Superexecutive Power and Political Underdevelopment in Russia" in Russia in the New Century: Stability or Disorder? Ed. by V.E. Bonnell, G.W. Breslauer. - Boulder, Colorado : Westview Press, 2001, p. 304

<sup>28</sup> Mishler, William and Richard Rose. "What are the Origins of Political Trust? Testing Institutional and Cultural Theories in Post-Communist Societies", *Comparative Political Studies*, 34, 1, February 2001, p. 41

<sup>29</sup> Simon, Janos. "Popular Conceptions of Democracy in Postcommunist Europe", in S. H. Barnes & J. Simon (eds), *The Postcommunist Citizen* Budapest: Erasmus Foundation and the Institute for Political Science of the Hungarian Academy of Sciences, 1998, p. 87.

<sup>30</sup> Munck, Gerardo, "Democratic Transitions in Comparative Perspective," Journal of Comparative Politics Vol. 26, no. 3, April 1994, p. 362

<sup>31</sup> Kubicek, Paul. "The Limits of Electoral Democracy in Ukraine," in "Democratization" Vol. 8, no. 2, Summer 2001, p. 125

<sup>32</sup> Javeline, Debra. "Protest and the Politics of Blame: The Russian Response to Unpaid Wages" Ann Arbor; University of Michigan Press, 2003, p. 183

Relationship between economic reforms and public support is critical in determining effectiveness and success of implemented reforms. War of attrition about asymmetric payoffs could prompt efficiency-enhancing reforms to be postponed or abandoned<sup>33</sup>. Rational voters may choose not to support efficiency-enhancing reform because of individual uncertainty about the resulting payoffs<sup>34</sup>.

## 2.2 Author's Analysis of the Reviewed Literature

Transitory developments in Georgia and Ukraine have shown that incorporation of democratic principles during the economic meltdown and social degradation could backfire and create additional problems for the government by placing additional power leverages in the hands of the public. While an electoral backlash might challenge effective policy-making by a non-democratic government and lead to time inconsistency problems, lack of political and social constraints on the government removes accountability and transparency from the government officials and leads to rent-seeking and other inefficient activities.

Existence of information asymmetry in the economic and political chaos leads to atomization of public and inability to recognize preferred win-sets. Therefore, with the fear of moving to more unfavorable win-sets, voters choose to stay put and accept whatever win-set they are currently holding even if they are not satisfied about it. Furthermore, most of the population is not a rational voter since they do not have the tacit knowledge and ability to interpret consequences of

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<sup>33</sup> Alesina, Alberto and Allan Drazen. 'Why are Stabilizations Delayed?' American Economic Review 81, 1991, p. 1177

<sup>34</sup> Fernandez, Raquel and Dani Rodrik. "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty". American Economic Review 81, 1991, p. 1149

a specific reform. Those few that are knowledgeable lack the voice and power leverage to influence others, and their votes are relatively insignificant.

Delaying of reforms depends on the strength of individual and/or collective constituencies engaged in policy making procedures. In Georgia, the single party government was relatively more powerful than opposition and managed to implement reforms according to its will. On the other hand, Ukraine witnessed a more evenly balanced clash of opposing interest groups and political constituencies. Therefore, economic reforms in Ukraine were delayed until opposing sides figured out optimal compromise suitable for both parties in question.

After a heavy contraction of economy and severe output fall, emphasis was placed not on construction of democracy but on economic recovery. Incorporation of private property, with uneducated and system-exogenous population, led to further economic decline. While democracy leads to economic growth in the long-term, transitional countries did not have the luxury, or the means, or the desire to be able to adopt democratic principles considering more burning issues that they were facing in the beginning of the 90's.

Olson argues that broadly representative countries have a superior surrounding interest in the economic development than either a government of relatively narrow elites or authoritarian rulers<sup>35</sup>. This distinction can be realized when contrasting Georgia and Ukraine. Georgia, despite its multinational population, has always been a single-party, single-ideology government. Whereas, presence of significant Russian minority group in Ukraine and their ability to control

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<sup>35</sup> Olson, Mancur. "Dictatorship, Democracy, and Development". *American Political Science Review* 87, 1993, pp. 572

important financial and natural resources meant that their voice had to be heard on the governmental level. This created necessity for dialogue between governmental parties and necessitated the need for compromised action rather than unilateral activity. Compromised action incorporates interests of all participants and is based on relatively most acceptable win-set; whereas, unilateral activity is constructed upon the individualistic interests of elitist few and serves to the benefits of only those that implement the activity.

In the short-to-medium term, democracy imposes additional burden on economic growth by establishing potential checks and balances, and empowering population and other constituencies to question governmental choices. While, such a predisposition is beneficiary, and even necessary, it also requires additional time, resources and complexities to achieve an acceptable decision. Transitional countries experiencing economic meltdown do not have the luxury of neither time nor resources to waste on delaying reforms. In the beginning stage of transition, no democracy is better than more democracy.

Output fall was experienced throughout all post-Communist countries. Most of these countries shared similar or identical initial conditions, presence of command economy, participation in COMECON and presence of public ownership. However, countries with more reliance on COMECON and highly intertwined in intra-communist trade experienced larger output fall (Georgia for example) as their export markets disappeared after the dissolution of the USSR. On the other hand, Ukraine experienced a relatively smaller output decline, still significant but smaller in comparison in Georgia, due to the fact that the Ukrainian economy was more self-sustainable and relied much less on outside markets. As for the effects of liberalization, comparison of Georgia and Ukraine gives us mixed results. Despite the fact that Georgia

managed to liberalize much faster and recover its output contraction relatively quicker (Please refer to Appendix 1, table 1.1), the economic growth came at a marginal magnitude. Ukraine liberalized much slower and experienced a longer period of output decline, but its speed of economic recovery and growth was higher than in Georgia.

Removal of the central planner and lack of specific business skills outside of communist economy certainly lead to downfall of output and degradation of business enterprises. While these factors were significant for several businesses, their influence on overall economy is not as large as the fact that supply and demand curves no longer concurred at given prices and decline in demand for unneeded low-quality and uncompetitive products generated sharp decline in the supply of those products and led to production fall.<sup>36</sup>

While important, credit crunch and restrictive monetary policies were only a part of the reason for the economic output fall. Dissolution of COMECON and entrance into global competition were the main reasons for output fall as the countries could not longer find voluntary buyers for their less-competitive and low quality products. Furthermore, Jan Winiecki claims that in the transition process adverse effects on economic performance were generated not from the specific economic reform policies, but rather system specific characteristics of socialism. The output fall was generated by the combination of decrease in demand of unneeded “pure socialist output” and ceasing of communist output that only existed in Socialist central plans and was never realized

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<sup>36</sup> Such low-quality and uncompetitive products are referred to as “Pure Socialist Output”, a name baptized by the minister of finance of the first Polish Solidarity government and a political scholar Leszek Balcerowicz. The term was later used by Jan Winiecki and other scholars of the post-Socialist transition.

outside of the paper, meaning output that did not really exist, but was simply conned to have existed in order to meet and exceed the central annual plans.<sup>37</sup>

Despite the fact that a simple comparative case analysis can contrast effects of economic changes on political developments in the two countries, it is difficult to measure relationship between democracy and economic liberalization in Ukraine and Georgia for two main reasons. First reason is that Georgia's decision to liberalize faster was influenced by outside factors (such as International Financial Institutions) while the country was still in the state of anarchy (artificial government in the period 1993-1995). Ukraine's gradual liberalization suggests that economic policies were not determined by democratic elements, but on the opposite, democracy was a product of economic reforms. Second reason for difficulty to measure relationship between democracy and economic liberalization is existence of opportunistic behavior<sup>38</sup>. While de jure Georgia implemented quick liberalization policies, the extent of liberalization is impossible to measure as freedom of economy was still non-existent. One could argue that liberalization policies in Georgia were dictated by outside influence (World Bank) and domestic interest (preferences of elitist government). Ukraine shows a clear example of positive effect of liberalization on growth. Since Ukraine chose to undertake a gradual liberalization scheme its economic growth was also gradual, in fact negative in the beginning.

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<sup>37</sup> Winiecki, Jan. "An Inquiry Into the Early Drastic Fall of Output in Post-Communist Transition: An Unsolved Puzzle", *Post-Communist Economies*, Vol 14, no.1, 2001, p. 12

<sup>38</sup> Motohiro Sato and Jenna Bednar incorporate the concept of selfish opportunist behavior and argue that individualistic motivations are inherent in any economic system whether democratic or not. Please refer to: Sato, Motohiro. "The Political Economy of Interregional Grants." In: *Intergovernmental Fiscal Transfers. Principles and Practices*. (eds: Robin Broadway and Anwar Shah.) The World Bank, Washington D.C. 2007, p. 182 also refer to Bednar, Jenna. "Federalism as a Public Good." *Constitutional Political Economy*. Volyme 16, June 2005, p. 194

Dominance of executive branch in Georgia and insignificance of the institutional framework in the country are a clear demonstration of dangers of lack of democracy. Strong power leverage of the executive branch over legislative, judicial and other institutions eradicates the primary principle of democracy which is to facilitate interests of the public to the best of the interest of the public. Deteriorated institutions in Georgia that are controlled by the executive powers serve as supporting constituencies for achievement of opportunist behavior instead of acting as watchdogs to prevent such behavior.

### **2.3 Alternative explanations for divergence in political courses**

While extent of sequencing and stress of economic reforms is identified as an important characteristic for explaining political divergence between Georgia and Ukraine, several other factors could also account for the different political paths undertaken by the two countries. The role of Russian political and economic influence on post-Soviet countries, proximity to West and composition of neighboring countries, character of territorial and ethnic conflicts, patronage from the EU and/or the US, production specialization and availability of natural resources are possible alternative explanations.

#### **2.3.1 Russian political and economic influence**

Presence of Russia and Moscow's attempts to maintain its political and economic influence over former Soviet republics remains a challenge for the growth and democratization of Georgia and Ukraine. While both countries are still largely dependent on Russian energy imports and share membership in the Commonwealth of Independent States, one could argue that the extent of Russian influence is similar on both countries. Russia is interested in maintaining its super power status in the global political arena and Georgia and Ukraine are the few potential Moscow

satellites and spheres of influence that remain tangent to the Russian boundaries. Despite the fact that Moscow has significant contribution to the Georgian and Ukrainian political developments, the role of Russian politics can not be identified as a significant factor in determining differences in political divergences between Kiev and Tbilisi. Both Georgia and Ukraine remain under heavy economic pressure through Russia's ability to manipulate its bargaining leverages against the two countries by the virtue of its energy resources. Furthermore, the presence of Russian military on the territory of both countries and close ties with Moscow through political, economic and social dependence stemming from the Soviet times could be considered to have comparable effects on developments of Georgia and Ukraine.

### **2.3.2 Proximity to West**

Jeffrey Kopstein and David Reilly argue that distance from the Vienna/Berlin border is important in understanding a country's success in transition.<sup>39</sup> The authors argue that smaller the distance from the nominal border in their analysis mentioned above the more likely a country is to succeed in its transformation. Despite the fact that Ukraine already shares a border with EU countries, Poland and Hungary, and is closer to the Berlin/Vienna borderline in terms of distance, the path towards integration into the European Community appears to be identical for both Kiev and Tbilisi. In fact both countries applied for membership to NATO and integration to the EU simultaneously and face similar challenges and timeframes in succeeding in their attempts. While integration into the EU appears to be a distant possibility for both states, joining NATO will most definitely come at the same time, as both countries have gone through the accession process in

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<sup>39</sup> Kopstein, Jeffrey and David Reilly. "Geographic Diffusion and the Transformation of the Post-Communist World." *World Politics* 53. 2000, p. 22



parallel and have reached the level of intensive dialogue at the identical instant.<sup>40</sup> Therefore, consideration of proximity to the West argument as a catalyst for political divergence between two countries is invalid.

### **2.3.3 Character of Territorial and Ethnic Conflicts**

Georgia is still struggling to maintain its territorial sovereignty as it combats the separatist movements of self-proclaimed republics of Abkhazia and South Ossetia. The discussion of composition of these conflicts and its affects on the Georgian political climate is a topic of complicated discussion that has been covered extensively in the political science literature. However, what is important to note is that existence of these two conflicts is not a source but rather a result of difficult economic and social situation in the country during the period of initial economic reforms. Existence of separatist minority groups certainly hinders a state's ability to facilitate economic growth and political development. However, the argument of territorial conflicts is not a major factor in political divergence between Georgia and Kiev, as Ukraine itself faces a large Russian national minority with significant population and political power leverage in the Eastern part of the country near the Russian border.

### **2.3.4 Production Specialization**

Tables 1.3, 1.4 and 1.5 in Appendix 1 outline similarities between the starting points of the Georgian and Ukrainian economies. Despite the fact that Ukraine is a much larger country

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<sup>40</sup> At the April 2008 summit in Bucharest, Romania both Georgia and Ukraine were identified as simultaneous accession partners and were moved to the intensive dialogue stage to join the organization. For more information please refer to the North Atlantic Treaty Organization Bucharest summit at <http://www.nato.int/docu/update/2007/04-april/e0427a.html>, date accessed May 12, 2008

nominal comparative analysis can be made. By the virtue of their membership in the USSR, Georgia and Ukraine employed identical patterns of production and output systems. Furthermore, sector breakdown of their production areas reveals that both countries shared similar output patterns. In the late 1980's both countries were mainly dependent on their Agriculture and partially dependent on Industrial sector, while services segment was equally underdeveloped. Therefore, attributing divergence in political courses of the two countries can not be attributed to differences in their production patterns.

### **2.3.5 Availability of Natural Resources**

While both Georgia and Ukraine are rich in several mineral and metal resources, none of them possesses abundance of oil, gas or gold reserves. These commodities are highly demanded in the global market and possession of their reserves could propel a country to instant economic progress and social development. However, due to the fact that neither Georgia nor Ukraine are rich with energy and gold resources<sup>41</sup>, their development patterns could not have possibly been affected by comparative advantage in availability of natural resources.

## **3. *Effect of Economic Reforms on Democracy Building***

After having established that both Georgia and Ukraine were institutionally, politically and economically similar that none of the above-discussed alternative explanations could substantially explain the divergence in their political developments, I would like to expand on the

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<sup>41</sup> Ukraine ranks 54<sup>th</sup> in the world in terms of oil reserves while Georgia ranks 80<sup>th</sup>. Ukraine holds 25<sup>th</sup> place in the world in natural gas resources while Georgia comes in the 84<sup>th</sup> place. Discrepancies in terms of reserves are reflected by the size difference in two countries. However, neither of the countries exports their available resources and is highly dependent on importing them from Russia and other neighboring countries. For more information on the countries' natural resources please refer to the CIA World Factbook at <https://www.cia.gov/library/publications/the-world-factbook>

connection between sequencing and timing of economic reforms and ensuing impact on construction of a democratic society. Discussion of magnitude of civil impact, political realities in Georgia and Ukraine, analysis of social situation in the two countries, importance of voice and derivatives of a weak judiciary system can shed more light to the complexity of the topic of connection between implementation of post-Communist economic reforms and democratization of former Soviet republics.

### **3.1 Magnitude of Civic Impact**

The findings of this paper illustrate that definitions to complex political and economic variables in post-Socialist transition can be uncovered by recognizing social elements of suffering, survival, distrust, opportunistic behavior and disregard of legal norms by the poverty struck populations of the post-Socialist countries. It is clear that establishment of democratic norms after a regime change is unfeasible without incorporation of civic participation in the decision-making processes.

I will start my argumentation by pointing out several political facts and challenges in the post-Soviet countries, Georgia and Ukraine. I follow by providing background on political governance structures in the two states. Discussion of links between government choice and public discourse will follow. The paper will build on these arguments to discuss reasons and effects of lack of public participation in Georgia and Ukraine and the ensuing effect on the process of democratization. Analysis of the strength or lack thereof, of judicial systems and their reciprocal effects on civic participation will further underscore importance of public participation for efficient functioning of government through transparency, accountability and commitment.

Furthermore, the role and importance of public input in determining a state position and, thus, strategic policies will be assessed in order to better illustrate current lack of democratic progress. I will provide my concluding remarks as to why I believe that roots of political and economic instabilities in the former USSR countries primarily stem from the sociological factors that largely influence the construction of political and economic climates in Georgia and other post-Soviet countries.

### **3.2 Political Reality**

Through the definition of democracy, the aim [of a democratic state] is not to govern through commands or prohibitions but through agreements and compromises which result through bargaining in networks with different actors.<sup>42</sup> Inclusion of civic input in the process of nation building for the reasons of founding national governance and economic recovery through constraintment of political leverages in the course of accountability, transparency and government commitment is crucial. Non-credible government structures, with the lack of adequate accountability and transparency requirements, are blamed for further deterioration of economic and political climates within the post-Socialist states.

Governments in representative democracies, which has long been claimed to be the goal of the most post-Socialist societies, are short-lived. Politicians with specific policy preferences have fixed number of political mandates to serve in power. Furthermore, changes in government

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<sup>42</sup> Benz, Artur. "Governance – Modebegriff oder nützliches sozialwissenschaftliches Konzept?" in Benz, Artur. (ed.): "Governance – Regieren in komplexen Regelsystemen". Eine Einführung. Wiesbaden, 2004, p.35

generate changes in policy preferences and create a time consistency problem<sup>43</sup>. For narrow and specific fields of reforms, such as economic reforms, there is a need for continuity and stability of a reform. Due to changing policy preferences and probable temptations to manipulate politicians' personal interests, governments are not capable of pursuing socially desired economic factors, such as low and stable inflation for example. Narrow delegation of responsibilities is both a logical and an essential solution. As Lohmann puts it "credible commitment – which typically takes institutional form – is the solution to the various time consistency and political problems that beset monetary policy."<sup>44</sup> The resulting "unspoken premise is that governments are worse than markets. Therefore the smaller the state the better the state"<sup>45</sup> However, elements of delegation and institutional commitment were fully missing in Georgia and partially absent in Ukraine. Both countries embarked on the path of centralized management, a result of post-Communist heritage, which involved concentration of power and lack of transparency in decision-making procedures.

### 3.3 Situation Analysis

The introduction of new institutions and practices is a sensitive task. Its sustainability depends on old institutional heritage, interests of the social actors, level of expectation of the citizens, first experiences in transformation process, etc.<sup>46</sup> Susanne Lohmann has developed the concept of an Audience cost and argues that any attempt by a government to interfere within the established

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<sup>43</sup> For more on time consistency problems please refer to Lohmann, Susanne "Why do Institutions Matter? An Audience-Cost Theory of Institutional Commitment", Governance. Blackwell Publishing, Volume 16, Number 1, January 2003 , p. 104

<sup>44</sup> Lohmann, Susanne "Why do Institutions Matter? An Audience-Cost Theory of Institutional Commitment", Governance. Blackwell Publishing, Volume 16, Number 1, January 2003 , p. 107

<sup>45</sup> Stiglitz, Joseph. "Whither Reform? Ten Years of the Transition". Annual World Bank Conference on Economic Development Economics 1999, The World Bank, Washington, D.C., 2000, p. 34

<sup>46</sup> Cvejic, Slobodan. "Civic Movement, Social Capital and Institutional Transformation in post-Socialist Serbia". University of Belgrade. 2005 p.1

institutional structure might have high societal costs for the government. “It is the audience cost – or the threat of a trigger-strategy punishment – that makes the [government’s] commitment to the institution credible.”<sup>47</sup> In order to understand the importance of audience cost in post-Socialist countries, one has to study existence of interest/pressure groups within the society and peoples’ universal understanding of political and economic occurrences.

Followers of the Constructivist school of thought argue that “structures of human associations are determined by shared ideas rather than material forces”<sup>48</sup>. People understand each other, because they establish a common level of understanding through applying similar definitions and labeling common name tags. This argument is directly transferable to any socio-political discussion, as identities and interests of a state or an individual are constructed through the shared ideas rather than created by default; and their interactions with others are based on the mutually acceptable principles and personal perceptions stemming from ideational associations<sup>49</sup>.

Under these circumstances another feature gets high importance for the success of post-Socialist transformation and that is a kind of common identity shared by participants in post-Socialist transformation processes, which assumes their motivation to stand the challenges of post-Socialist transformation, the extent to which they share similar values and goals and are ready to

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<sup>47</sup> Lohmann, Susanne “Why do Institutions Matter? An Audience-Cost Theory of Institutional Commitment”, Governance, Blackwell Publishing, Volume 16, Number 1, January 2003 , p. 108

<sup>48</sup> Wendt, Alexander, 1999. *Social Theory of International Politics*. Cambridge: Cambridge University Press. p. 217 Found in JSTOR Official Online Scholarly Journal Archive at the following link: <http://assets.cambridge.org/97805214/65571/sample/9780521465571wsc00.pdf> date accessed: November 7, 2007

<sup>49</sup> For more information on the connection of ideational factors to the identity and interest of an actor, please refer to Michelle Pace’s analysis about state behavior in “Rethinking the Mediterranean: Reality and Representation in the Creation of a Region” <http://www.sant.ox.ac.uk/esc/ramses/pace.pdf> date accessed: November 7, 2007

support collective effort to build a new social order.<sup>50</sup> Furthermore, in order to clearly understand the importance of civil participation in influencing the political climate in a country, it is important to explore convergences of political climates in various post-Socialist states. In terms of political construction of their respective societies the peoples of most former Socialist states tend to follow distinctively encoded similar patterns.

Soviet legacies of monopolized management and horizontal decision making are still lingering in most post-Soviet countries. As an example, for the entire period of its transition, Georgia has remained a single-party political system. Each party with the majority vote in the parliament has become under the influence of the president. The cult of president in Georgia is very strong and political party success for the most part depends on its headship and connection with the president. Judging by the recent presidential and parliamentary elections, one could argue that political party success is closely associated with its candidate's success in the presidential elections. As a result, all political governments in Georgia have been single-party, single political-program governments. There has been little or no discourse of political opposition. To a certain extent, consistency of concentration of political power in the hands of a single party was beneficial, because changes in government could generate changes in policy preferences and create a time consistency problem.<sup>51</sup>

However, despite the fact that the single-party system provides the benefits of time-efficiency and consistency in terms of political reforms, it also exposes several concerns about legitimacy

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<sup>50</sup> Cvejic, Slobodan. "Civic Movement, Social Capital and Institutional Transformation in post-Socialist Serbia". University of Belgrade. 2005 p. 7

<sup>51</sup> For more on time consistency problems please refer to Lohmann, Susanne "Why do Institutions Matter? An Audience-Cost Theory of Institutional Commitment", Governance. Blackwell Publishing, Volume 16, Number 1, January 2003 , p. 104

and commitment of the government. The Georgian elections in the late 90s showed signs of Communist legacy of leadership rotation. That combined with a lack of significant opposition and high possibility of re-election created numerous opportunities for Georgian politicians and prepared grounds for one of Georgia's strongest ills, corruption. Domination of vertical structures over spatial sector (horizontal) structures further contributed to escalation of power corruption.<sup>52</sup>

The above-mentioned developments in Georgia are drastically contrasted with political occurrences in Ukraine. Incorporation of gradual economic reforms meant that atomization of public and social structures were less severe in the country as compared to in Georgia. The presence of strong interests groups (through labor unions and non-governmental organizations) attached a certain level of accountability to the Ukrainian politicians in power and lessened the magnitude of rent-seeking and state capture through abuse of power leverages. Presence of social groups is further reflected in composition of the Ukrainian political scene and latest presidential and parliamentary elections. Multi-polarity of the Ukrainian government reveals higher degree of civic involvement in the political process and presence of accountability and legitimacy elements in the Ukrainian government. Furthermore, civil participation and political multi-partism decreases the possibility of opportunist behavior and negatively affects extent of rent-seeking while promoting social efficiency and contributing to general social utility rather than serving towards the interests of elitist few as in the case with Georgia.

According to the research of an anti-corruption non-governmental organization Transparency International, Georgia ranked 5 places from the bottom out of 133 countries surveyed for

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<sup>52</sup> Sagan, Iwona. "Urban Policy, Coalitions of Power and Urban Regime Theory". (2007) in: Sagan, I., Herrschel, T. (eds.): "Enhancing Urban and Regional Governance". European Urban and Regional Studies Journal. Special Issue. 2008 p.4



corruption in 2002 while Ukraine held a respectable 67<sup>th</sup> place.<sup>53</sup> Most adverse effects of corruption can be seen in developing countries like Georgia, where effects of Corruption undermining economic growth, jeopardizing financial stability, and weakening the ability of the state to deliver basic services are most visible.<sup>54</sup> In addition to bribery and side-payments, corrupt Georgian politicians are known to use their influence to help businesses avoid taxation, to distort market competition, and to affect regulations that favor firms with whom they have special ties. As a result rent-seeking is highly developed in Georgia. According to Hellman et al's categorization of transition countries, Georgia definitely falls under the category of medium/partial reformers, where rent-seeking, both through exercising influence and state capture, is very high.<sup>55</sup> Failure of specific economic reforms may result from special interest strategic behavior – resulting in state capture.<sup>56</sup> On the other hand, presence of political opposition and possibility of social punishment through loss of elections discourages Ukrainian politicians in power to exercise high degree of state capture. In terms of economic reforms and comparatively less corruption, Ukraine can be placed under the category of least advanced reformers on the same Hellman scale.

Hellman et al argue that the outcome of economic activities in an economy where rent-seeking exists is a distortion and all kinds of distortion lead to a dead-weight loss in a society.<sup>57</sup> Consequently, political problems arise, because politicians, who are on the receiving end of

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<sup>53</sup> Transparency International, "The 2002 Corruption Perceptions Index," Berlin, Transparency International, August 28, 2002, available online at [www.transparency.org](http://www.transparency.org), date entered: December 12, 2007

<sup>54</sup> Phillips, David. "Stability, Security and Sovereignty in the Republic of Georgia". Rapid Response Conflict Prevention Assessment, Council of Foreign Relations. January, 2004 p. 24

<sup>55</sup> Hellman, Joel; Jones, Geraint and Daniel Kauffman. "Seize the State, Seize the Day: State Capture and Influence in Transition Economies" Journal of Comparative Economics 31. p. 757

<sup>56</sup> Hellman, Joel and Schankerman, Mark, "Intervention, Corruption and Capture: the Nexus Between Enterprises and the State", EBRD Working paper, No. 58, 2000, p. 22

<sup>57</sup> Hellman, Joel; Jones, Geraint and Daniel Kauffman. "Seize the State, Seize the Day: State Capture and Influence in Transition Economies" Journal of Comparative Economics 31. p. 766

benefits from the state capture, have few or non-existent incentives to implement reforms to correct existing distortion and restore dead-weight loss generated from it. This is the case in Georgia where single-party system and lack of opposition enables government officials to exercise their political power and abuse efficiency and transparency of country's political system. While strong opposition presence in Ukraine restrains the leading parties from taking advantage of their political power leverages and facilitates a more democratic process of decision-making through discussion and consensus.

### **3.4 Situation Analysis**

Based on the arguments provided above, the importance of civic participation becomes self-evident. Existence of public and institutional watchdogs to constrain evolution of the government as an enslaving leviathan is necessary to ensure rational and beneficial reforms have been undertaken and international treaties signed for the strategic purpose of promoting economic recovery and social progress. Therefore, the importance of strong interest/pressure groups, such as worker unions for example, is crucial in incorporating social input and representing popular dissatisfaction, when applicable, into the governance process of a country.

Deeper analyses into the issue reveal that the notion of interest/pressure groups has been almost non-existent and insignificant in most post-Soviet countries, including Georgia. Such a distinct characteristic of the post-Soviet countries can be attributed to two occurrences. First element is the presence of ideational legacy from the past and ensuing inability of the population to recognize its new civil and social rights and undertake necessary collective measures to defend

those rights. The second occurrence is perhaps even more complex and, is related back to the economic meltdown, after the collapse of Communism, in a inward spiraling progression.

However, on the other hand, we can observe a similarly distinctive pattern in Ukraine. Due to implementation of the gradual economic reforms in the country, the extent of public atomization as a result of economic meltdown was less significant and therefore has gained in strength and size with subsequent stabilization of the Ukrainian economy. Presence of interest groups and political opposition parties, while non-significant compared to the Western European state, but still relatively stronger than in Georgia, has meant that political decision making process in the country has become more accountable, legitimate and most importantly transparent.

The argument here is that, as a result of the bad economic situation in Georgia, people are forced to spend more time and effort in surviving economic hardships. Georgians have become more atomized and have little time to engage in collective action.<sup>58</sup> Therefore, nothing threatens the Georgian single-party system, because it can survive the socio-political situation where challenging forces are not strong enough.<sup>59</sup> While, in Ukraine, lack of similar developments (significant economic crash, public atomization, reign of single-party politics) have led to a more transparent and democratic processes of governance.

Each and every economic reform implemented by the Georgian, and for that matter most other post-Soviet, governments brought elements of shock, desperation and perverse redistribution of

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<sup>58</sup> Hirschmann, Albert. "The Changing Tolerances for Income Inequality in the Course of Economic Inequality" in: *Essays in Trespassing, Economics to Politics and Beyond*. Cambridge University Press, 1984, p. 47

<sup>59</sup> Hellmann, Joel. "Winners Take All. The Politics of Partial Reform in Postcommunist Transitions" *World Politics* 50, January 1998, p. 228

wealth and benefits in the country.<sup>60</sup> High inflation and severe shortages proceeded as a result of initial economic reforms. As a result, one could conclude that the initial economic reforms of stabilization, price liberalization and institution building came very rapidly and population was unable to adjust to the speed of economic reforms. Therefore, public confidence in government's ability to undertake necessary economic steps degraded. However, contrary to Adam Przeworski's argument that decrease in public confidence will lead to a protest against government, the Georgian people did not express their dissatisfaction with the government until the early and latter stages of the transition.<sup>61</sup> In the early stages of economic reforms the Georgian government enjoyed a "honeymoon period" and pent-up demand, as people acknowledged hard economic situation in the country, sympathized with the government and demanded less.<sup>62</sup>

The extent of the "tunnel effect" was less in Ukraine because gradual economic reformation of the country created a lesser gap between the winners and losers of the economic reform.<sup>63</sup> As a result the extent of public backlash and/or disillusionment was smaller in Ukraine and led to higher civil involvement in political processes as the economy gradually rebounded from the initial shocks.

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<sup>60</sup> Nelson, Joan "Social Costs, Social Sector Reforms, and Politics in Post-Communist Transformations. In: Joan Nelson, Charles Tilly, and Lee Walker, eds., Transforming Post-Communist Political Economies. Washington D.C. : National Academy Press 1997, p. 252

<sup>61</sup> Przeworski, Adam "The Political Dynamics of Economic Reform". In: *Democracy and the Market. Political and Economic Reforms in Eastern Europe and Latin America*. Cambridge University Press 1991, p. 183

<sup>62</sup> Nelson, Joan. "The Politics of Economic Transformation: Is Third World Experience Relevant in Eastern Europe?" Overseas Development Council, Mimeo 1992, p. 34

<sup>63</sup> Hirschmann argues that in terms of economic crisis suffering people draw gratification from the fact that other people are in a better position. When they see other people getting richer people do not immediately become envious and believe that their time of social and economic prosperity will come as well. While such pre-disposition is an advantage at the early stage of drastic economic reforms, it has colossal long term effects as the suffering population runs out of patience and become hostile towards government. For more information about the "tunnel effect" please refer to Hirschmann, Albert. "The Changing Tolerances for Income Inequality in the Course of Economic Inequality" in: *Essays in Trespassing, Economics to Politics and Beyond*. Cambridge University Press, 1984, p. 43

Achievement of progress is not feasible if the fundamental details of people and state are not fully understood. Creation of the second economy, free reign of mafia, non-liquid business transactions, lack of risk and property regulation through legal means and disillusionment of the general public shows that very fundamental social details were overlooked or underscored when the political re-construction of civic society took place in Georgia during the post-Soviet era. Distrust in judiciary and social institutions produced further atomization and de-collectivization of public. The idea of “governmental oversight to protect the public”<sup>64</sup> became a legendary paradigm; the one that everyone knew and did not exist. Conversely, creation of the civil society in Ukraine did not have to endure similar adversities due to a lesser degree of social atomization.

Furthermore, it is important to distinguish between newly established social order since 1990 and spillover effects of ‘path-dependent’ elements from the communist social order.<sup>65</sup> J. K. Galbraith has recognized the emergence of a “culture of contentment” and the development of self-protective strategies on the part of the “haves” of global society in an age of possessive individualism and self-help.<sup>66</sup> The notion of “culture of contentment” is directly expandable to the construction of the Georgian society and partially to the establishment of the Ukrainian public discourse. The communist institutional arrangements and political practices were based on the highly regulatory system of central supervision and control. People of the Soviet Union were accustomed to living within the system, and, after the break-up of Communism, lacked the necessary means, experiences and knowledge to establish a new form of social governance based

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<sup>64</sup> Bjork, Isabelle and Catherine Connors. “Free Markets and Their Umpires: The Appeal of the U.S. regulatory Model”, World Policy Journal, Volume XXII, No 2, Summer 2005, <http://www.worldpolicy.org/journal/articles/wpj05-2/bjork.html>, date entered: November 14, 2007

<sup>65</sup> Stark, David. “Path Dependence and Privatization Strategies in East Central Europe”. East European Politics and Society, 6, 1992, p. 22

<sup>66</sup> Galbraith, John Kenneth. “The Culture of Contentment”, Boston: Houghton Mifflin, 1992, p. 141

on the democratic principles of public input and state accountability. The severe economic meltdown in Georgia further deteriorated public's ability to recognize its role in national politics and undermined chances of non-violent collective actions in Georgia. As a result, instead of exploiting alternative options, Georgian people settled for the contemporary circumstances in the fear of adversities from possible alternative options.

Due to the fact that the economic failure in Ukraine was relatively less significant, it allowed the Ukrainian public to regroup, recognize their social power leverage and engage in political endeavors by participating in electoral processes. Therefore, the extent of social contentment and passivity in terms of engaging in political processes, such as voting in elections, is much lower.

### **3.5 Weak Judiciary and Consequent Dilemmas**

Most of the problems of state capture, dominance of state affairs by the interlinked and homogenous executive and legislative branches of government, lack of civic participation through exercising their voice and continuous failures to build democracy are attributable to the impotence of the judicial institutions to enforce rule of law and oversee upholding of justice in the country. It is important to incorporate Buchanan's distinction between "constitutional politics" and "ordinary" or "normal politics." (See Ackerman, 2000)<sup>67</sup> Due to non-existence and futility of the institutional protective systems within the political regime, the politics of constitution making and establishment of judiciary for that matter, become subjected under the tenure of ordinary politics dominated by the elitist few, who maintain control over the majority of national wealth and state resources.

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<sup>67</sup> Buchanan, James. "Post-Socialist Political Economy: Selected Essays". Cheltenham, UK. Edward Elgar, 1997, p. 35

Lack of special institutional arrangements, such as the existence of the strong judiciary and protection of fundamental constitutional rights, as formalized principles of liberty, can further contribute to the public distrust in state support and cause additional atomization of public as a result of creation of opportunistic behaviors and pursuance of personal goals. Such adverse dealings came to life in Georgia specifically because of dissolution of justice protection through appropriate state institutions and public disrespect towards abiding by law. The main cause of such development was the creation of institutional chaos at the early stages of Georgia's post communist transition. Lack of governance through the period of 1993-1995 led to the institutional void in the judiciary system. Such void was later exploited by the power elites in the country and adjusted to the political and personal interests of those holding the governmental power.

One could argue that, in the process of democracy building, the quality of constitution as a law and its absolute enforcement is essential. As Ulrich Preuss puts it, “[o]nly if the bond between the governors and the governed obligates the ruler [to serve in the interests of the ruled] is it possible to form a reliable institutional structure of government.”<sup>68</sup> Furthermore, the notion of strong and impartial judicial system is necessary to “confine each department [of society] to its specified functions, but also to prevent the legislature from enacting oppressive or ill-considered measures”<sup>69</sup>

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<sup>68</sup> Preuss, Ulrich. “The Political Meaning of Constitutionalism”, in R. Bellamy (ed.), *Democracy and Sovereignty : American and European Perspectives* (Aldershot: Avebury, 1998). p. 24

<sup>69</sup> Kommerss, Donald and W.J. Thompson “Fundamentals in the Liberal Constitutional Tradition” in: J.J. Hesse and N. Johnson (eds.), *Constitutional Policy and Change in Europe*, Oxford: Oxford University Press, 1995 p. 39

In terms of provision of justice, Hayek has argued that "Injustice is really the primary concept and the aim of rules of just conduct is to prevent unjust action [where] the injustice to be prevented is the infringement of the protected domain of one's fellow men."<sup>70</sup>

As a result of deterioration of the judicial system and concentration of executive and legislative power in the hands of the elitist few, that are primary beneficiaries of obstruction of legal system in the country, elements of social politics in Georgia are similar to Locke's Second Treatise on Government where the right of representation is linked to the possession of private property understood as a protected domain.<sup>71</sup> The notion of private property is important in this discussion. Under the Soviet Union all property was state owned and there was no private property. Dissolution of communism and removal of command economy caused massive privatization of public property by the elitist few. Furthermore, protection of property in Georgia is still loosely defined and general population is insecure in terms of being able to protect whatever little private property they have from severity of economic hardships and legal impotence in the country.

Adam Smith noted in 1776 at the birth of the American Republic that a "Civil government, so far as it is instituted for the security of property, is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all".<sup>72</sup> Government politics in Georgia seem to be pointing in the similar direction in terms of utilization of concentrated power towards the benefit of those who hold the power through possession of large part of national wealth and build up that wealth through the virtue of power holding. This

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<sup>70</sup> Hayek, Friedrich . "Studies in Philosophy, Politics and Economics." Chicago: University of Chicago Press, 1967, p. 166

<sup>71</sup> Locke, John. "Two Treatises of Government", ed. P.Laslett. New York, Mentor, 1965

<sup>72</sup> Smith, Adam. "Wealth of Nations" *Birth of the American Republic* 1776. p.14



coherent chain of intertwining of power and wealth would be ironic if it were not distressing in terms of demoralizing effects on population masses. Such demoralizing effects further contribute to atomization of public, lack of collective action and government accountability and commitment deficiencies. These lead to further decapacitation of civic voice and as a result absence of efficient democracy building.

During the 18 years since the beginning of the process of post-Soviet transformation, Georgia has yet to experience a change of government through constitutional norms. Only two cases of change in power so far have been caused by massive apprise and revolution-like protests. In the cases of low civic participation and social disintegration of an individual, dramatic political-economic deterioration is necessary before forces are mobilized to establish new institutional structures.<sup>73</sup> The two cases of power change in Georgia are examples of such mobilization. However, what is important to note here is that, revolutionary collective action is rare and largely insufficient in terms of laying fundamental grounds in establishment of strong institutional structures, where government is constrained through delegation of power and enforceable popular accountability. The fact that individuals are atomized through economic hardships and social difficulties means that civic participation in post-Socialist states like Georgia will be limited to occasional public outbursts and change of power through random revolution and over throwing of existing power. For most cases, when civic participation is mute, desirable elements of legitimacy are missing further hindering the process of democracy building in Georgia.

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<sup>73</sup> Block, Fred,: "Political Choice and the Multiple 'Logics' of Capital, in: Zukin, S./ DiMaggio, P., *Structures of Capital: The Social Organisation of the Economy*, Cambridge University Press, Cambridge 1990, p.90

In terms of the strength of the judicial framework, the case of Ukraine is comparably similar to that of Georgia. However, the main distinction can be observed in two major points. First, the lack of the institutional void, as observed in Georgian in 1993-1995, is slowly translating into an independent judiciary system in Ukraine, which is still dominated by the executive and legislative branches of government, but to a lesser extent. Secondly, one should make a distinction between the revolutionary process that led to changes in power in the two countries. In the case of Georgia, the initial and velvet revolutions were a result of public detonation against economic suffering and removal of inefficient political regimes. In the case of the Orange Revolution, the public protest was not against the political system itself, but rather against the outcome of political elections. These two distinctions are important separators between the Georgian and Ukrainian judicial systems, while it is true that both come under a significant influence from the executive and legislative branches of government.

### **3.6 Civic Participation and State Affairs**

In his article “Diplomacy and domestic politics: the logic of two-level games”, Robert Putnam offers a practical framework for assessing a link between domestic politics and country’s foreign policy decisions. Foreign policy decisions are especially crucial for the Georgian government due to the fact that Georgia is a relatively small country<sup>74</sup>. While a similar case can be made with Ukraine, the magnitude of importance of civic participation is considerable smaller due to the size of the country.

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<sup>74</sup> The total area of the Republic of Georgia is 69,700 km<sup>2</sup>; population: 4,646,003; GDP per capita: \$3,900; For more information on Georgia please refer to CIA World Factbook. Central Intelligence Agency website: <https://www.cia.gov/library/publications/the-world-factbook/geos/gg.html>, date entered: Dec 12,2007

Small states like Georgia depend heavily on international trade, relations with outer world and support from great superpowers on the international political arena. By the nature of its smallness, Georgia is forced to adopt faster and more efficiently in the changing environment. However, due to the deficiency of strong civil society and lack of incentives from the Georgian politicians to adopt reforms and innovate, Georgia has been very unsuccessful in its bid to draw on the models of countries like Belgium, Latvia and other successful small European democracies.

Apart from delegating economic responsibilities to independent institutions, Georgian government also faces the challenge of providing fundamental base on which a consociational democracy will be built. A “consociational democracy” is characterized by a balance in the relationship between the executive and legislative branches of government and executive power-sharing in coalitional governments<sup>75</sup> Small European democracies such as Belgium and Latvia are consociational democracies. Despite, the fact that Georgia is far distant in terms of development from those two European countries, the underlying principle of building a democracy based on power sharing is the same. Despite the fact that Georgian constitution advocates power sharing among legislative, judicial and executive branches of government, the existence of single-party system in Georgia means that decision-making process is centralized with a lack of political checks and balances from the opposition and independent societal watchdogs. Due to the fact that Georgia is a small country, there is a smaller number of elites and members of elite groups and it is easier to establish a personal network of personal links.

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<sup>75</sup> Lijphart, Arend (1980) “Introduction: The Belgian Example of Cultural Coexistence in Comparative Perspective”, in Arend Lijphart (ed.) *Conflict and Coexistence in Belgium: the Dynamics of a Culturally Divided Society*. Institute of International Studies. University of California, Berkeley, p. 9

Having established a link between small statehood and need to establish strong social links and strengthen elite groups, we go back to Robert Putnam and elaborate the positive effects of civil organization on transitional development of Georgia. Putnam's logic of two-level games is based on the role of government both in domestic politics and international negotiations. Two-level games are "played" out on an international board where international actors interact and achieve agreements or non-agreements that have to be ratified on the second part of the two-level game, the domestic board where public approval through referendums and government support through re-election is a norm in a democratic society<sup>76</sup>. Furthermore, Putnam argues that since the domestic board has the final decision on ratifying an agreement on the international board, domestic politics have a relative superiority. Therefore the stronger the opposition on the domestic board the harder negotiations become on the international arena<sup>77</sup>. Presence of strong pressure/interest groups on the domestic board ensures that a government does not commit to an agreement that would not be beneficial for its society overall.

Since we now know that participation on the international arena is crucial for small states like Georgia, we now turn to the second part of the two-level games, the domestic board. One could argue that the major reason for Georgia's failure on the road to transition is a lack of strong civil society and inability to distinguish between the two levels of two-level game for Georgian government. With no opposition home, Georgian government has the freedom to negotiate internationally and ratify domestically any agreements that it deems feasible. Despite the fact that, some of those agreements might not be beneficiary for the Georgian society overall, such as

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<sup>76</sup> Putnam, Robert. "Diplomacy and Domestic Politics: the Logic of Two-level Games". *International Organization* 42. 1998, p. 443

<sup>77</sup> Putnam, Robert. "Diplomacy and Domestic Politics: the Logic of Two-level Games". *International Organization* 42. 1998, p. 447

the privatization of all major power plants in the country, the agreements certainly yield a positive effects for the politicians in power, who receive side-payments or certain benefits from establishing an agreement.

In terms of lack of tensions on the domestic board, Georgia could be placed under the context of what Adam Przeworski calls "poor capitalism", where the lack of tensions on the domestic board hinder the requirements for further democratic progress, such as economic security, citizen participation, and legitimacy.<sup>78</sup> These variables, combined with political and economic problems discussed above, lead to fragmentation of the Georgian society and inability to mobilize.

Furthermore, for a long stretch of time Georgia failed to undertake a policy of what Wim Swaan calls "Creative Destruction".<sup>79</sup> The state was unable to establish an Institutional framework where existing and newly entrant firms and entrepreneurs would interact with each other and where non-efficient firms would be liquidated. As a result of state's inability to provide the necessary framework, business actors faced severe difficulties in their operations and contributed to below-par functioning business activities. Such denouncement of small and medium entrepreneurs led to inefficient economic outcomes and further atomization of public, and thus hindered the process of democracy building in Georgia.

The case of Ukraine, on the other hand, is comparable to that of Georgia, but different in terms of allocation of public interests and win-sets. The Ukrainian population did not experience the

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<sup>78</sup> Adam Przeworski, "Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America" Cambridge, England, 1991, p. 67

<sup>79</sup> Swaan, Wim. "Behavioral Constraints and Creation of Markets in Post-Socialist Economies". Mimeo. Institute of Economics. Hungarian Academy of Sciences, Budapest, 1994, p. 27

economic meltdown as significant as that in Georgia, and therefore, was capable of relatively swiftly rebounding from initial social shocks and engaging in collective actions and formation of interest/pressure groups while maintaining a considerable stronghold on government's ability to abuse political power.

### **3.7 Democracy Building during the Post-Soviet Transition**

Construction of a democratic society is one of the strongest challenges ex-Soviet countries are facing on their course to post-Socialist transformation. Shift from the command economy to the liberal market, redefinition of the institutional framework and incorporation of elements of public involvement and government transparency in the decision-making process was always going to be difficult considering the intricate complexities of the system specific characteristics of the Communist regime. While most of the countries have rebounded from the initial economic meltdown and managed to achieve a stable economic growth, the concept of democracy building still remains an aspect of further work and realignment of roles and capacities of significant actors (government, institutions and public) in the political systems of the post-Socialist countries.

#### **3.7.1 Definition of Democracy**

Democracy is a concept that requires several observations and interpretations and still can not be universally standardized for different political regimes and societies around the world. Several key characteristics, such as government function, political culture, public participation and element of social and civil liberties, are vague to define and vary from one scholar's interpretation to another. While most political scientists agree that the above-mentioned characteristics are definitive components of democracy, arguments still remain as to an

universally applicable definition of what democracy is. The concept of considering one country to be more democratic than another varies based on one's understanding and interpretation of political processes within the country.

### **3.7.2 Author's Understanding of Democracy**

While making several references to notable scholars in the field of social sciences and their interpretations of nuances for democratic process, it is difficult to construct an objective view about the concept without avoiding the potential risk of personal bias and subjective misinterpretation. Therefore, when contrasting democracies of Ukraine and Georgia this paper has examined to sources of democracy indices in order to make the argument that the intensity and sequencing of initial economic reforms are primary determinants in identifying divergence in political build-ups in Ukraine and Georgia.

The evaluation of democracy in this paper is based on the statistical analysis made by the Freedom House Statistics Center and the Economist Intelligence Unit's Center of Statistics. The observations by the above-mentioned sources are portrayed in the Appendix 2, tables 2.1. and 2.2 respectively.

While the Freedom House Center certainly possesses the legitimacy and credibility for being viewed as a plausible source of reference, I believe that democracy indices presented by the center contains several deviations and constructions that hinder and conceal important aspects for definition of democracy. Incorporation of several variables, such as corruption levels and independence of media, does indeed strengthen the validity and correctness of the reports, but also underestimates true measure of democracy. Freedom House statistics are concise and

sophisticated in their depiction of countries around the world, but their findings can be better understood as indicators of political freedoms of respective countries rather than meters of democracy. Therefore, while incorporating the data from Freedom House for comparative and descriptive purposes, I believe that Freedom House's evaluation of Ukraine and Georgia fails to illustrate true difference in democratic developments of the two countries studied in this paper.

On the other hand, the evaluation criteria and analysis of democracy from the Economist Intelligence Unit's center of statistics appears to be closer in line with definitions and understandings of democracy from a number of political scholars referred to in this paper. By constructing a specific and concise five-element criteria for defining democracy, the Economist Intelligence Unit representatives have succeeded in concentrating on the most important aspects and characteristics of what to look for when one tries to identify a definition of democracy. Therefore, I have based the argument of this paper based on the Economist Intelligence Unit's evaluation of the two countries and claim that Ukraine has managed to become a more democratic country as compared to Georgia.

Indeed the major differences in evaluation parameters of two countries, namely significant discrepancies in indicators of electoral participation and pluralism, functioning of government and political participation, are the most crucial characteristics identified as primary sources of understanding a democracy. Based on this criteria and after observing dissimilar political compositions in the two countries in terms of political representation in the parliament and president office (please refer to tables 2.3, 2.4 and 2.5 in Appendix 2), I have concluded that, despite the fact that Georgia and Ukraine have managed to achieve a similar pattern of economic growth after initial economic collapses, they still differ in terms of construction of democratic



societies with elements of accountability, transparency and legitimacy severely missing in Georgia, while partially present in Ukraine. While it is still difficult to place Ukraine in the category of democratic countries due to several limitations and drawbacks pointed out above, it is certainly feasible to argue that Ukraine has proven to be more successful in democratizing its governmental structures, institutional framework and contexts of decision-making processes. Presence of multi-party politics and results of recent presidential and parliamentary elections clearly illustrate elements of democratic governance and strength of civil participation and government accountability and legitimacy in Ukraine. Results of presidential elections and composition of the Georgian parliament points towards a system of single-party politics that has limited or no democratic principles of government accountability and transparency of decision-making processes in Georgia.

#### **4. *Concluding Remarks***

In this essay, I have tried to provide a link between importance of civic participation and process of democracy building in the countries undergoing the path of post-Soviet transformation. Analysis of several political facts and challenges in Georgia and Ukraine indicate that atomization of public through economic hardships and lack of institutional enforcement can set forth the possibilities of power corruption and rent seeking that lead to inefficient economic outcomes, further widening the gap between the rich and the poor, and most importantly, hinder the process of democratization of post-Communist societies.

I tried to summarize background on political governance structures in Georgia and Ukraine and derived that without the strict supervision and counter-balance of civic and institutional watchdogs, government officials have reasonable incentives to utilize deficiency of public

participation in decision-making process and institutional void to serve as a system of checks and balances to constrain abuse of government power, to pursue their personal and opportunistic goals. Such abuse of power leads to further deterioration of economic and social structures within a country and results in more concentration of power in the government. Such disposition of government power is absolutely counter-productive and even improper for implementation of democratic principles.

Discussion of links between government choice and public discourse illustrated that abuse of power was unconstrained under the absence of transparency and accountability requirements. Such requirements are plausible when echoed through the voice of public and direct social input in state matters through the virtue of approval/disapproval of government through exercising the right of vote.

Importance of social input appears invariably futile when discussing reasons and effects of lack of public participation in Georgia. The fact that governments tend to be single-party, single-ideology executive and legislative branches, and most importantly the fact that for the course of the past 18 years both changes in government came not as a result of constitutional transfer of power, but rather denouncement of previous government through revolution-like public upheaval show that lack of public voice in the Georgian politics is the main barrier to unfolding the building blocks for effective functioning of democracy. The case of Ukraine demonstrated a similar pattern of the post-Socialist transformation with a notable difference that gradual economic reforms resulted in lesser economic declines and consequently in smaller public atomization. Such discourses were translated into the ability of the Ukrainian people to realize their social and political roles within the Ukrainian political system and engage in collective

actions through participation in elections and containment of power abuse. The difference in initial economic reforms and ensuing impact can therefore explain the difference in contrasting political developments in analogically similar post-Soviet countries.

Furthermore, analysis of the strength, or lack thereof, of Judicial systems and their reciprocal effects on civic participation further underscored the importance of public participation for efficient functioning of a government through transparency, accountability and commitment. Deterioration of legal system and its exploitation for opportunistic goals can diminish public confidence in the legal system and deter individuals from the fear of disobedience to the law. Lack of institutional framework to sufficiently enforce the law and uphold the constitutional requirements contributes to further concentration of power in the hands of the rulers and marginalization of public involvement.

Moreover, the role and importance of public input in determining state position and thus strategic policies was assessed in order to better illustrate current lack of democratic progress in the republic of Georgia. Lack of domestic constraints on identification of strategic national choices leads to provision of government as a leviathan that is so powerful, that it incorporates both the responsibility of a principle and an agent in political and economic affairs of a country.

Thus we concluded that deficiency of political accountability and lack of need for political commitment further weakens the Georgian state. The most important interest of any government is to maintain/expand political power and get re-elected. Therefore, politicians are keen on demonstrating their goodwill towards public and fully committing themselves to responsibilities that they will find themselves accountable for during the period of next elections. However, in the

absence of threat to re-elections, as is the case with the single-party system in Georgia, politicians are less inclined to commit themselves as agents or “honest brokers” to serve in the interests of the public<sup>80</sup>. Hence, we can conclude that Georgia, similar to many post-Soviet countries, is a state with low political commitment, accountability and civil participation.

After the collapse of the communist regime the intensity of initial economic reforms directly affected the role of institutional framework, civic participation, government function and process of decision-making in the newly created post-Socialist states. Existence and involvement of all of these factors are crucial elements for constructing democratic governance and a liberal state. The importance of the above-mentioned elements is especially evident in the early stages of social democratization. Decision-making through opposition and compromise is absolutely necessary in a society, as incorporation of social and institutional elements builds credibility and legitimacy of a society and allows it to choose more efficiency enhancing options from a wider range of available strategic choices.

At the beginning of the 1990's, Georgia and Ukraine, fresh off their disintegration from the Soviet reality and the Communist dominance, found themselves on the crossroads of a painful road to social, economic and political transformation. The divorce with the Soviet Union brought along several negative side effects. Most notable adversities, in this case, included, but were not limited to, the severe output contraction, collapse of the business sector, widening of income gap between the different social classes, promotion of selfish individualistic interests, institutional

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<sup>80</sup> Majone, Giandomenico. “The Regulatory State and its Legitimacy Problems”. West European Politics, Vol 22, No1 (January 1999) p2.

chaos within the system and complete social atomization resulting from the loss of government credibility and trust in the rule of law.

Unable to cope with the new reality and overcome emerging social and economic difficulties, Georgia and Ukraine were forced into modifying their economic and institutional structures and relied heavily on the outside support, most significantly that of the International Financial Institutions, in order to try to provide a smooth and least painful fix to their existing problems. Liberalization of post-command economies, stabilization of previously pre-determined prices, privatization of Soviet public property and establishment of new institutional frameworks were the initial steps most post-Soviet countries, including Georgia and Ukraine, undertook towards distancing themselves away from the inefficient and unsuitable dealings of the Soviet system.

The initial choice of the post-Soviet countries in terms of implementing the above-mentioned reforms was highly dependent on the intensity and time sequencing of those reforms. Georgia opted for rapid transformation and implemented what is now referred to the Big Bang reformation. Ukraine, on the other hand, chose the path of gradual change and adopted less intensive reforms sequenced over a longer period of time.

Big bang economic reforms: rapid implementation of stabilization, liberalization, privatization and institution building processes led to extreme social inequalities in Georgia, which further deteriorated importance of institutions and civic input, and concentrated the governing power in the hands of the elitist few, who exploited the unchecked power to reinforce their unchallenged opportunistic interests. Promotion of personal interests weakened the ability of the country to democratize its management processes due to the lack of institutional constraints on abuse of

power, non-existent systems of checks and balances for supervision of government choices, civic inability to mobilize and engage in collective action against opportunistic behavior through elections and, most importantly, abuse of judicial system that led to demotion of justice and further contributed to strengthening of the rulers and impotence of the ruled.

On the other hand, implementation of gradual economic reforms in Ukraine, through careful timing and sequencing of the processes of stabilization, liberalization, institution building and privatization had less adverse effects on the fundamental elements necessary for emergence of democracy. Despite the fact that gradual economic reforms also contributed to weakening of the institutional, civic and judicial parameters, the extent of adverse effects were lower and, thus, role of these parameters were relatively stronger with respect to constraining opportunist behavior and containment of over-dominant function of a government. In such cases, the institutional framework, civic involvement, system of checks and balances and respect for legal principles, were successful, even though lengthened, in decapacitation of government power and partial eradication of opportunistic behavior, which consequently resulted in ongoing gradual democratization of Ukraine with relatively less severe (vs. Big Bang) initial economic reforms.

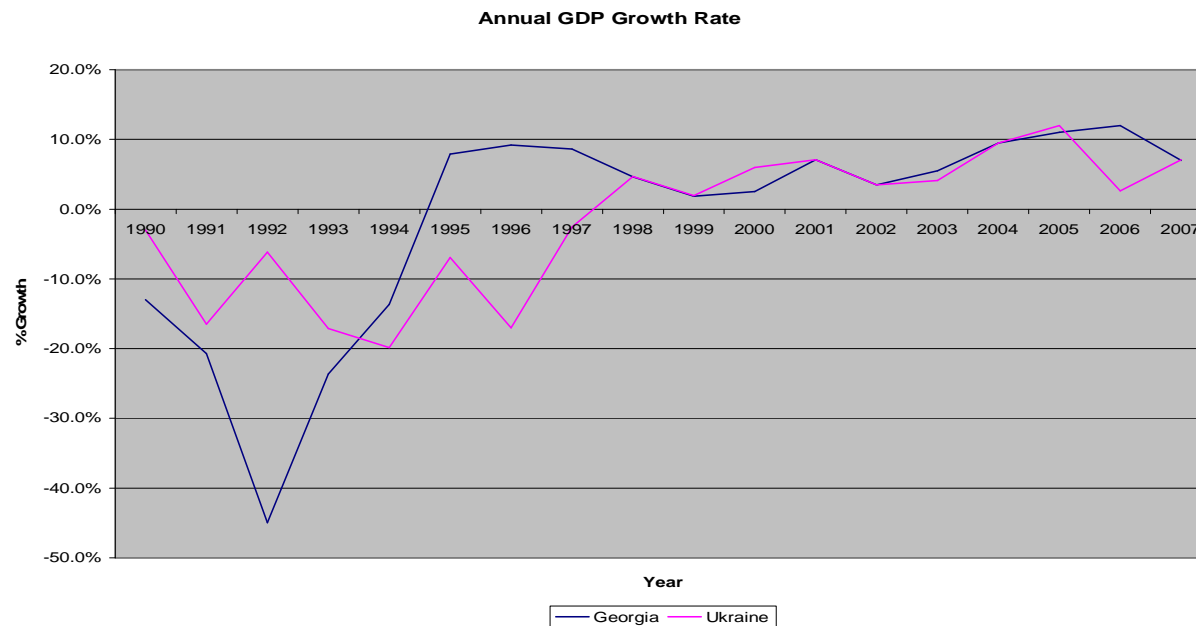
The comprehensive study of post-Soviet transformation is interesting not only in social/economic/political terms, but in practical terms as well. As pointed out above, the study of sociological elements and consequences can be very useful in understanding resulting political and economic developments. Perhaps, a closer analysis of social interactions and potential for collective action, through sociological and anthropological investigation, could provide useful tips for future strategic reforms and actions. Furthermore, the topic of how does lack of civil participation due to public atomization lead to process of democracy building in a country is a

very interesting field of research that I plan to pursue in the future and would encourage my peers and colleagues, interested in the field of post-Socialist transformation, to look into as well.

## Appendix 1 Economic Comparison

This Appendix outlines various economic trends for Georgia and Ukraine for the period of 1990-2007

**Figure 1.1** Annual GDP Growth Rate for Georgia and Ukraine

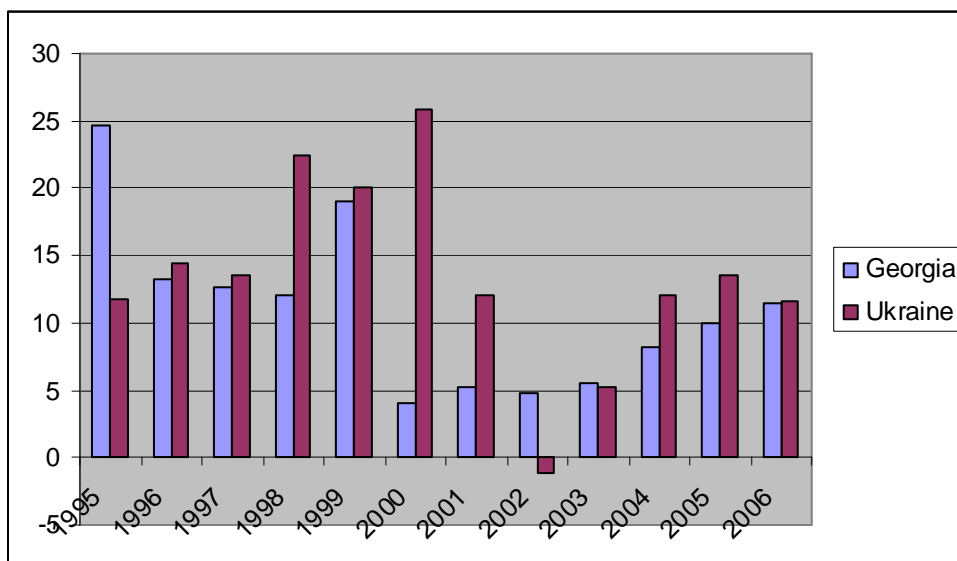


Source: National Statistics Centers of Georgia and Ukraine

**Note:** Patterns of Economic growth are similar until 1992, and then they diverge for the period 1992-1997 and begin to converge since while both countries achieve stable economic growth since 1997.



**Figure 1.2** Rates of Inflation in Georgia and Ukraine



Source: The CIA World Factbook

**Note:** The divergence in economic performance between the two countries for the period of 1992-1997 is clearly illustrated in differences in inflation prices. Georgia's decision to undertake rapid economic reforms led to heavy initial inflation levels in 1995 and slowly began to decline. While Ukraine's choice of gradual transformation resulted in steady inflation for the 1995-1997 period and began to rise fast for the 1998-2000 period. At the turn of the century, both countries began to slowly control inflation rates and adjust their economies accordingly. The above graph illustrates that Georgia and Ukraine started slowly converging in terms of inflation patterns since 2004, arriving at almost identical levels in 2006.

**Figure 1.3** Sector Value-added (% of GDP)

Country		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kyrgyz Republic	Agriculture	34.2	37.0	39.0	41.0	40.9	43.9	49.7	44.6	39.5	37.7	36.8	37.3	38.6
	Industry	35.8	35.5	37.8	32.0	25.5	19.5	18.3	22.8	22.8	26.7	29.2	28.3	26.2
	Services	30.0	27.57	23.16	27.0	33.7	36.56	32.0	32.6	37.7	35.6	34.0	34.4	35.2
Tajikistan	Agriculture	33.3	37.9	27.1	23.3	24.0	38.4	39.0	31.8	26.9	27.4	29.5	29.2	24.3
	Industry	37.6	37.5	45.3	46.4	40.8	39.0	30.6	25.6	26.0	29.2	29.7	29.2	24.0
	Services	29.1	24.59	27.61	30.4	35.3	22.56	30.4	42.6	47.1	43.4	40.8	41.6	51.7
Armenia	Agriculture	17.4	25.0	31.0	51.4	44.9	42.3	36.8	32.0	34.0	29.5	25.5	28.3	26.2
	Industry	52.0	49.2	39.4	26.9	37.0	32.0	32.6	33.2	30.8	32.2	35.4	33.0	36.8
	Services	30.7	25.78	29.56	21.7	18.2	25.76	30.6	34.8	35.25	38.3	39.0	38.7	37.0
Georgia	Agriculture	31.5	28.7	52.9	58.6	51.7	52.5	34.2	30.8	28.0	26.3	21.6	22.1	20.6
	Industry	33.5	37.2	23.9	22.0	19.7	15.9	23.5	23.1	22.8	22.5	22.5	22.0	23.0
	Services	35.0	34.08	23.16	19.4	28.6	31.68	42.2	46.1	49.22	51.2	56.0	55.8	56.4
Ukraine	Agriculture	25.6	22.8	20.4	21.7	16.2	15.4	13.8	14.4	14.2	14.3	17.1	16.4	15.3
	Industry	44.6	50.5	50.9	37.7	47.5	42.7	38.2	35.1	36.1	38.5	36.3	34.7	38.2
	Services	29.9	26.73	28.73	40.6	36.2	41.92	48.0	50.5	49.63	47.2	46.6	48.9	46.5

Source: World Bank, *World Development Indicators*

**Notes:** 1) Heavy decline in Industry Sector in both Ukraine and Georgia (Perhaps as a result of diminished central production); 2) Orientation on more demanded export sectors (Agriculture and Services); 3) Shift in national specialization and identification of new competitive advantages; 4) Georgia experienced relatively low turbulence in realignment of sectors; Ukraine experienced the largest turbulence

**Figure 1.4** Output Growth % (1971-1997)

Country	Period average	Output growth	Capital growth	Labour growth	Factor contribution	TFP growth	Labour productivity
<b>Kyrgyz Republic</b>	1971-97	-0.1	3.9	1.6	2.2	-2.4	-1.7
	1971-90	3.2	4.9	2.3	3.1	0.1	0.8
	<b>1991-97</b>	<b>-9.5</b>	<b>0.8</b>	<b>-0.5</b>	<b>-0.1</b>	<b>-9.4</b>	<b>-9.0</b>
<b>Tajikistan</b>	1971-97	-1.7	3.8	1.9	2.5	-4.2	-3.6
	1971-90	2.6	5.2	3.0	3.7	-1.1	-0.5
	<b>1991-97</b>	<b>-13.8</b>	<b>-0.3</b>	<b>-1.1</b>	<b>-0.9</b>	<b>-12.9</b>	<b>-12.6</b>
<b>Armenia</b>	1971-97	0.6	3.2	1.1	1.7	-1.1	-0.4
	1971-90	3.9	5.0	2.3	3.1	0.8	1.6
	<b>1991-97</b>	<b>-8.8</b>	<b>-1.7</b>	<b>-2.5</b>	<b>-2.2</b>	<b>-6.5</b>	<b>-6.3</b>
<b>Georgia</b>	1971-97	-1.4	2.3	0.2	0.8	-2.3	-1.6
	1971-90	2.6	4.0	1.3	2.1	0.5	1.3
	<b>1991-97</b>	<b>-13.1</b>	<b>-2.5</b>	<b>-3.0</b>	<b>-2.9</b>	<b>-10.2</b>	<b>-10.0</b>
<b>Ukraine</b>	1971-97	-1.1	2.9	-0.1	0.8	-1.9	-10.7
	1971-90	2.1	4.1	0.5	1.6	0.5	-1.0
	<b>1991-97</b>	<b>-10.2</b>	<b>-0.3</b>	<b>-1.7</b>	<b>-1.3</b>	<b>-8.9</b>	<b>-8.5</b>
<b>Average across all FSU countries</b>							
Agriculture	<b>1991-97</b>	-6.1	-3.1	0.0	-0.9	-5.2	-6.1
Construction		-17.6	-1.2	-8.1	-6.1	-11.6	-9.5
Industry		-10.5	1.1	-6.2	-4.0	-6.5	-4.3
Services		-1.8	-0.3	0.0	-0.1	-1.7	-1.8
Trade		-4.2	-0.2	3.1	2.1	-6.3	-7.4
Transport		-11.4	0.9	-2.5	-1.5	-9.9	-8.9

Source: De Broeck and Koen (2000)

**Note:** Ukraine and Georgia share almost identical numbers in output growth, labor growth, total factor productivity growth and labor productivity

**Figure 1.5** Export Composition by Sector (%)

	<b>Kyrgyz Republic</b>		<b>Tajikistan</b>		<b>Armenia</b>		<b>Georgia</b>		<b>Ukraine</b>	
	1988	2000	1988	2000	1988	2000	1988	2000	1988	2000
Electric power	3	11	3	13	1	7	0	2	1	1
Oil and gas	0	0	1	0	0	0	2	4	2	1
Metals										
- Ferrous	0	0	0	0	1	4	6	17	17	41
- Non-ferrous	6	5	17	54	3	14	1	16	2	8
Chemical and petrochemicals	1	4	4	1	11	4	5	13	8	13
Machinery	37	10	10	8	22	11	14	13	37	13
Light industry	26	7	49	16	40	5	22	1	6	5
Food industry	20	3	10	1	16	8	41	16	15	4
Wood and paper	0	0	0	0	1	0	1	3	1	3
Other industry	5	4	2	4	6	39	2	4	6	4
Agriculture	5	13	4	4	0	1	5	11	4	5
Other sectors	0	40	64	28	0	6	0	1	1	3

Source: Freinkman et al. (2004)

**Notes:** 1) Heavy declines in both Georgia and Ukraine in Light and Food industries (Labor intensive sectors); 2) Mixed results in other sectors visible in other sectors; 3) Georgia and Ukraine shifted their specialization from labor-intensive to capital intensive sectors (especially Metals); 4) Lack of significant natural resources (especially energy resources) created extra burdens on local economies to attract the necessary finances for structural reorganization in specialization sectors; 4) Both countries concentrated on one or few sectors rather than having output diversification. As a result, dissolution of the USSR removed a large portion of respective specialization industries and further hardened the process of effective restructuring of output sectors in the transition thus contributing to unemployment, inflation and negative growth

## Appendix 2 Political Comparison

This Appendix incorporates democracy scores from the Freedom House Statistics Center and the Economist Intelligence Unit

**Figure 2.1** Freedom House Democracy Indices for Ukraine and Georgia

National Governance	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2001	2002	2003	2004	2005	2006
Georgia	N/A	N/A	5.25	5.5	5.5	5.5	5.75	6.25	6.25	6	6	6.25	6	5.75	5.25	5.5	5.5
Ukraine	N/A	N/A	5.75	6	6	6.25	6	6	5.75	5.5	5.5	5.25	5	4.75	5	5	4.5
Electoral Process																	
Georgia	N/A	N/A	5.5	6	6.5	7.25	6.75	5.5	5	4.5	4	4.5	5	5.25	5.25	4.75	4.75
Ukraine	N/A	N/A	5.25	5.75	5.25	5.75	3.75	3.25	3.25	3.5	3.5	4	4.5	4	4.25	3.5	3.25
Civil Society																	
Georgia	N/A	N/A	4.5	4.5	4.75	4.5	4.5	4.75	4.5	4.25	3.75	4	4	4	3.5	3.5	3.5
Ukraine	N/A	N/A	5	5	4.75	4.5	4.25	4.25	4	4.25	4	3.75	3.75	3.5	3.75	3	2.75
Independent Media																	
Georgia	N/A	N/A	5	5.25	5.5	5.5	5.25	5	4.5	4.25	3.75	3.5	3.75	4	4	4.25	4.25
Ukraine	N/A	N/A	5.25	5.5	5.5	5.25	4.75	4.5	4.5	4.75	5	5.25	5.5	5.5	5.5	4.75	3.75
Local Governance																	
Georgia	N/A	N/A	7	7.5	7.75	7.45	7.25	7.45	7.25	6.85	6.65	6.5	6.25	6.25	5.75	6	5.75
Ukraine	N/A	N/A	5.5	5.75	5.75	5.75	5.5	5.5	5.75	5.5	5.5	5.5	5.25	5	5.25	5.25	5.25
Judicial Framework																	
Georgia	N/A	N/A	7.6	7.8	7.4	6.35	6.65	6.85	6.75	6.75	6.3	6.25	5.35	5.45	5.25	5	4.75
Ukraine	N/A	N/A	4.75	5.25	5.25	5	4.75	4.75	4.4	4.5	4.25	4.25	4.1	4.1	4.5	4.25	4.25
Corruption																	
Georgia	N/A	N/A	7.25	7.5	7.5	7.75	7.85	7.75	5.75	5.5	5	5.25	5.5	5.75	6	5.75	5.5
Ukraine	N/A	N/A	6.5	6.75	7.25	7.25	7	6.5	6.25	6	6	6	6	5.75	5.75	5.75	5.75
Democracy Rating																	
Georgia	N/A	N/A	6.01	6.29	6.41	6.33	6.29	6.22	5.71	5.44	5.06	5.18	5.12	5.21	5.00	4.96	4.86
Ukraine	N/A	N/A	5.43	5.71	5.68	5.68	5.14	4.96	4.84	4.86	4.82	4.86	4.87	4.66	4.86	4.50	4.21

Source: Freedom House Statistics Center and Author's calculations

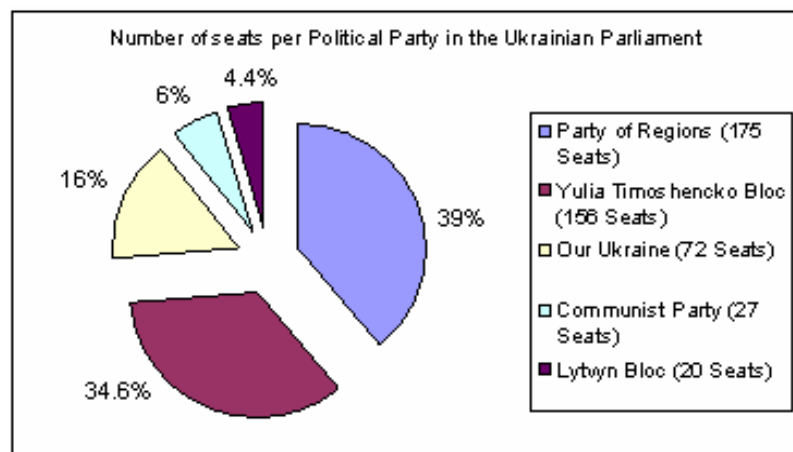
**Figure 2.2** The Economist Intelligence Unit's Index of democracy in Georgia and Ukraine

	Rank	Overall score	Category scores				
			I Electoral process and pluralism	II Functioning of government	III Political participation	IV Political culture	V Civil liberties
Ukraine	52	6.94	9.58	5.71	5.56	5.63	8.24
Moldova	62	6.50	9.17	4.29	6.11	5.00	7.94
Russia	102	5.02	7.00	3.21	5.56	3.75	5.59
Georgia	104	4.90	7.92	1.79	3.33	5.00	6.47
Armenia	110	4.15	4.33	3.21	3.89	3.13	6.18
Kyrgyzstan	111	4.08	5.75	1.86	2.78	5.00	5.00
Kazakhstan	120	3.62	2.67	2.14	3.33	4.38	5.59
Belarus	128	3.34	2.58	2.86	3.33	4.38	3.53
Azerbaijan	129	3.31	3.08	0.79	3.33	3.75	5.59
Tajikistan	149	2.45	1.83	0.79	2.22	6.25	1.18
Uzbekistan	160	1.85	0.08	0.79	2.78	5.00	0.59
Turkmenistan	162	1.83	0.00	0.79	2.78	5.00	0.59

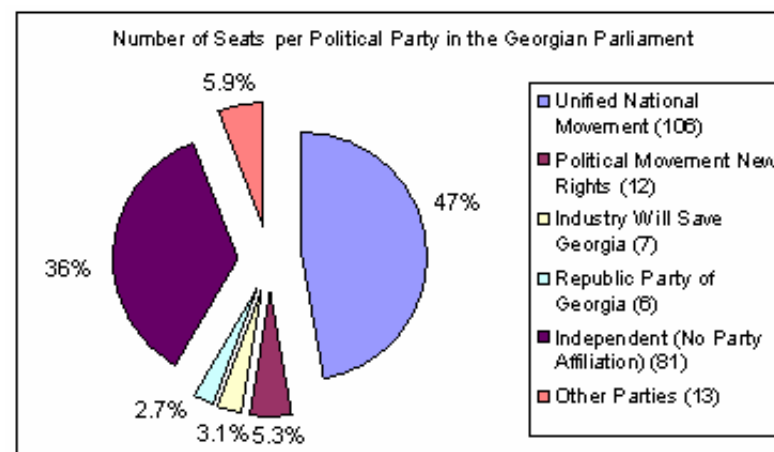
Source: The Economist Intelligence Unit

**Note:** Despite the fact that Freedom house's evaluation of the two countries leads us to believe that Georgia and Ukraine are very similar in terms of democratic processes and decision-making; we notice that statistical calculations on which the overall evaluation is based are wrong. The main distinction between Georgia and Ukraine is in the indices for government performance, civil participation and citizen rights. These differences can be best described through imposition of different economic reforms at the early stage of transition. Georgia's option to radically transform overnight led to the heaviest output fall of all ex-Soviet countries (GDP declined by as much as 75%) and resulted in atomization of the public. Even though, the Georgian economy managed to recover swiftly (achieving growth as early as in 3 years after reforms) the impact on democracy of initial economic reforms has been far more substantial.

**Figure 2.3** Composition of Georgian and Ukrainian Parliaments by the number of seats for the major political parties in 2008



Source: The Economist Intelligence Unit



Source: Parliament of Georgia

**Note:** The discrepancies in parliament composition in Georgia and Ukraine indicate an evenly balanced power sharing in Ukraine, while Georgia appears to be a single-party system. In Ukraine no single party has majority of votes and needs to negotiate with other parties when passing a new bill or reform. Whereas, in Georgia The Unified National Movement Party (UNMP) holds majority by the virtue of lack of significant political opposition and ability to influence members of parliament with no particular party affiliation to vote in the UNMP's direction. Such disposition accelerates the process of decision-making in Georgia, but eliminates the possibility of constructive dialogue between representatives of different political parties, incorporates limited win-set of legislative opportunities by the virtue of adhering to the interests of the UNMP and reduces a chance of political transparency and accountability.

**Figure 2.4** The results of last presidential elections in Ukraine

Candidates — nominating parties	Votes first round	%	Votes rerun	%
Viktor Yushchenko — Self-nomination	11,188,675	39.90	15,115,712	51.99
Viktor Yanukovych — Party of Regions	11,008,731	39.26	12,848,528	44.20
Oleksandr Moroz — Socialist Party of Ukraine	1,632,098	5.82		
Petro Symonenko — Communist Party of Ukraine	1,396,135	4.97		
Nataliya Vitrenko — Progressive Socialist Party of Ukraine	429,794	1.53		
Source: Central Electoral Commission. On 3 December the Supreme Court declared the results of the 17 November 2004 run-off election to be invalid. The listed re-run was on December 26, 2004.				

**Note:** The relatively close performance of the main two candidates and ensuing run-offs in the presidential elections illustrates existence of multi-party system and division of political support in Ukraine. The ability of political parties to mobilize their electoral bases indicates openness of the Ukrainian political system and adherence to democratic principles of representation and legitimacy of the government.



**Figure 2.5** The results of last presidential elections in Georgia

Candidates	Votes	%
Mikheil Saakashvili	1,060,042	53.47
Levan Gachechiladze	509,234	25.69
Badri Patarkatsishvili	140,826	7.1
Shalva Natelashvili	128,589	6.49
Davit Gamkrelidze	79,747	4.02
Gia Maisashvili	15,249	0.77
Irina Sarishvili-Chanturia	3,242	0.16
Repealed ballots	33,129	1.67
Invalid ballots	12,260	0.61
<b>Total</b> 56.19% turnout; 3,527,964 eligible voters	1,982,318	100

Source: Parliament of Georgia

**Note:** Dominance of the presidential elections by Mikhail Saakashvili and lack of significant opposition indicates existence of single-party system in Georgia. The cult of Saakashvili is very strong in the country and the re-elected president enjoys massive popular support mainly due to the weakness of the opposition parties to mount a series challenge. The fact that the presidential elections were called before their original scheduling in fall of 2008 demonstrates presence of certain political resistance forces in the country. However, inability of opposing politicians to rally the electorate towards governmental change is decisive in terms of indicating voter's indifference, indicated by the turnout of roughly 56% of population eligible for voting.

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