

The Political Economy of Corruption in Transition and the Pressures of Globalization

Adrian Savin*

Abstract

The East European countries' transition towards market economy and democratic governance seems blocked. In this context, the paper argues that integration with the EU and NATO might offer a second chance for turning the transition process successful. From all causes of this delayed economic and democratic development, I chose to analyse the one essential for Romania: obstruction of free and fair access to resources and services by a narrow group of transition winners. These individuals have used the advantage of past positions in the communist bureaucracy to, currently, constitute an informal, but efficient, structure that monopolizes resources, prevents free access to the economic system, and, therefore, nurtures corruption. Moreover, the still existent state monopoly enables corruption turning it into a force that is blocking development of free markets. The paper argues that integration with the European Union and NATO may offer a solution for eradicating corruption and for increasing transparency in the system. This is possible for two reasons. First, the two above-mentioned institutions enjoy great legitimacy in Romania and can therefore act as levers for triggering effective reforms. Second, the conditionality of adopting the Acquis Communautaire – a body of laws that can fight corruption – might lay a solid basis for successful internal reforms that would create sustainable and transparent structures able spur economic and democratic development.

Key words: oligarchs, informality, groups of interest, transition winners, acquis communautaire

* Adrian Savin is an MA student at Osgoode Hall Law School, York University, Toronto, Canada and fellow at Nathanson Centre for the Study of Organized Crime and Corruption

The transition from communism to democracy and market economy is predicated upon multiple changes. Among them, two emerge as having critical importance: the establishment of clear (private) property rights over the former public goods and the design and consolidation of a set of institutions meant to hold the state accountable against its citizens. Despite the initial enthusiasm of the societies set off on the unknown road of transition, only some succeeded, others accomplished only partly the initial goal, while many others failed dramatically. Corruption – which I generically construe as the involvement of state apparatus into the flouting of the public interest by private groups – emerged in all post communist countries, though at different degrees, as a leitmotif of transition⁶⁸. The very deplored element, deemed to be discarded by the fall of the communist ideology and by the collapse of the political and economic structures supporting it, seemed to have lingered on into the new environment and, moreover, to have exploded in terms of extent and gravity.

An important component of corruption, aside from the conventional cultural and institutional ones, is the fact that after the fall of communism a new arrangement of power was needed to fill in the void created by the collapse of former regimes. This time, though, the underlying rationale of power was not the hierarchical position held in an all-encompassing bureaucratic machinery (which was the case in communism). Rather, what really mattered was the economic strength in an environment structured upon capitalist relations. Indeed, in the almost entirely bureaucratized society, the position one held inside this bureaucracy was overriding in terms of both power and status in society. The higher on the bureaucratic hierarchy, the stronger one was economically and authoritatively. On the contrary, in the emerging capitalist society, the position inside a flagging bureaucracy could not constitute, alone, a rationale for power and privileged position anymore. Instead, the rationale of economic might was more adept to buttress this special status.

Nevertheless, economic might, materialized in the extent of property and capital one holds, was insignificant at the time of the upheaval. Since

⁶⁸ Some authors maintain that democratization breeds an environment prone to facilitate the development of corruption (J. Moran, *Democratic transitions and forms of corruption*, in 'Crime, Law and Social Change', 36: 379-393, 2001).

property was overwhelmingly public, a process of wealth formation could only be underpinned around the former. From this point of view, the bureaucratic position held a very important place, for it could facilitate the transfer of wealth from public to private. This is so because the bureaucratic position in communism awarded the incumbent a *de facto* ownership right over public goods. Therefore, in transition, the bureaucratic position was an ideal factor in channelling the factual control over public goods/capital into *de jure* private ownership rights.

Truly, a process of conversion of public property into private property was a must in order to effect a real departure from the previous system, and to underpin a much-needed market economy. However, the problem was to effect this conversion the fairest way possible, meaning to impart the national wealth to a broader section of the population (which, in fact, had been its generator during communism) in order to generate a substantial middle-class, which constitutes the engine of democracy and of sustained capitalist economy. In practice though, the models of national wealth distribution were significantly twisted. In many countries its major winners were narrow and privileged groups of oligarchs, mainly coming from the former *nomenklatura*, this causing serious negative consequences upon the subsequent societal developments.

The mechanisms that generated this outcome were the deployment of the state apparatus to transfer public property and capital mainly towards such narrow groups, and the lack of implementation of badly needed economic and institutional reforms. Clear property rights, a transparent privatisation process, a strong and modern civil service, an independent judiciary, or an accountable power-apparatus would be the basic requirements for a successful transition process from communism to market economy and democracy. However, in many post-communist countries these prerequisites were not achieved, with the result that they have since been ravaged by corruption, informality, weak and politicised civil service, lack of transparency and a non-functional judiciary

In Romania, the delayed economic and institutional reforms favoured the emergence of the autochthonous oligarchs, albeit not at a similar degree as in

the CIS⁶⁹. The modality of their emergence was in essence one of corruption on a grand scale. If one considers the major corruption cases in Romania since the fall of communism, one can notice a common pattern: a massive abusive, non-transparent shift of capital and property from either the public assets or private owners' narrow groups of interests, with the state's tacit or explicit connivance. For example, the rigged privatizations, banks collapses, or pyramidal schemes all effected a considerable reallocation of capital (assessed in billions of dollars) from the state or population towards narrow groups of vested interests, by means of the state's institutions active or passive collusion. This grand corruption was facilitated by the unclear regime of property rights and lack of institutions to regulate the processes of transition, and produced a so-called class of 'cardboard millionaires'. They have been constantly able to steer the state apparatus and the 'democratic' institutions to further their interests, and even to control the degree and genuineness of reform so that their capacity of rent extraction would not be damaged. The slow pace of economic and institutional reforms and Romania's current 'laggard' position among the former communist countries to join the EU are, to a significant extent, effects of these vested interests, which hampered the reforms that would have opposed them, but that would have benefited the larger part of the society.

The vicious circle of lack of reform - emergence and entrenchment of oligarchs engenders an evolutionary trap for the society subject to such circumstances. Thus, it becomes very difficult for such a society to evolve, to implement the needed reforms capable of promoting the well being of the larger part of the population. The destitution of the masses of disenfranchised, on the one hand, and the affluence and organizational capacity of the vested interests, on the other, create an imbalance of power, which makes almost impossible any prospect of overcoming the deadlock and escaping the vicious circle. Such is the case of Russia and other countries emerged from the former Soviet Union⁷⁰.

⁶⁹ See the degree of state capture for some of the former communist countries in Joel S. Hellman, Geraint Jones, and Daniel Kaufmann, *Seize the State, Seize the Day-State Capture, Corruption and Influence in Transition*, World Bank, Working Paper No. 2444, September, 2000.

³ With the exception of Lithuania and Estonia.

In Romania, the transitional vested interests did put a significant brake on reform and, thus, on the capacity of the country to fully overcome the contingency of an institutional and economic development trap. Thirteen years after the fall of communism Romania is still in a situation of chronic lack of reforms, both institutional and economic, with an overwhelming corruption that appears implacable, and a large part of population, which lives in deep poverty and feels betrayed by the transition, and by the political-economic system that it engendered. Furthermore, it is not insignificant in this regard that the population doesn't trust the main democratic institutions (like the parliament, the judiciary, the government, the political parties) and perceives them as working against their interest, and as being overflowed with corruption. Moreover, it is not at all insignificant that corruption is perceived among the most deleterious problems of Romanian transition⁷¹, and that a significant way perceived to curb it, more than a decade after the depart from dictatorship, is by means of an authoritarian regime⁷². In addition, it is not insignificant that the main international actors have been repeatedly signalling the same problems, with an accent on corruption as one of the main issues to be addressed by successive governments, and yet largely immune. The fact that the problem of corruption has not subdued, rather it ominously increased along the years, is a corollary of the assertiveness of the entrenched vested interests during the transitional period, and a result of the poor or lack of institutional and economic reforms in Romania over the transitional years.

The fact that 13 years since the collapse of communism, some of the most important institutions for the transitional process as such, like the judiciary and the administration, are not functional is a symptom of the same trap of the vicious circle. Indeed, most international institutions (like the EU⁷³, NATO⁷⁴, UN, etc.) signalled the lack of substantial reform in the judiciary and administration and the pervasive corruption that paralyzes these

⁷¹ See Gallup-Romania, 'Monitoring Corruption', 17/05/2002, on the w.w.w. at : http://www.gallup.ro/romana/poll_ro/releases_ro/pr020517_ro/pr020517_ro.htm

⁷² I refer here to the former presidential and parliamentary elections of November 2000.

⁷³ See EU Commission annual reports on the w.w.w at: <http://europa.eu.int/comm/enlargement/romania/>.

⁷⁴ See NATO's Secretary General - George Robertson - speech at the Romanian Parliament, March 2003, on the w.w.w at: <http://www.nato.int/docu/speech/2003/s030303a.htm>

domains. As a consequence, their essential role in building an accountable power system and in implementing transitional policies is curtailed by the same vested interests, which capture any opportunity to fulfil their goals detrimental for the rest of the society. In essence, the lack of basic elements of a modern state - independent judiciary and administration systems - is signalling not only the lack of substantial democracy, but also the actual impossibility of the Romanian society to exit transition, and, more dangerously, the ease with which vested interests penetrate the state in order to attain criminal goals and shape policies.

In addition, the lack of a market economy in Romania is to a significant extent result of the existence of these vested interests, which determine other principles of resource allocation than those of free markets. Besides, the persistence of state monopolies in certain domains, admittedly determining such non-marketed allocation of resources, the practice of clientelism and the pervasive corruption that often constitute the main criteria of transactions is a sure sign of the lack of a market economy. The fact that many commercial transactions (and especially those involving public moneys) are based on clientelistic or political affiliations, rather than market requirements, makes them both very costly for society in general and very profitable for the party/parties involved, in particular. Such transactions add no value to the market, and also produce unfair competition and discriminate against the legitimate economic actors. This situation produces, in turn, a reticence for foreign capital entering the country and encourages commercial malpractice, further deepening the vicious circle of a protracted and mired transition.

Therefore, it has become obvious that Romania is not capable of fighting the social malaise of corruption, which has become structural and put the country in position of not being able to return to the Euro-Atlantic space in terms of economic and institutional development. Romania lacks the internal momentum to generate a genuine anti-corruption trend and, thus, escape the vicious circle of economic stagnation and lack of liberal democracy⁷⁵. As such, only an international resolution against this gloomy course is capable of offering a different evolution.

⁷⁵Larry Diamond, *Is the Third Wave Over?*, *Journal of Democracy*, 7:3 (1996), 20-38.

This is the case of the NATO and EU integration, which apart from their geo-strategic considerations, have nonetheless a strong component meant to assist the former communist countries in their effort to escape the tares of their past and to curb the mechanism of corruption, which undermines the finalization of transition. As the U.S. senator John McCain put it: 'Entry into NATO has become so important that it could actually be harmful to the progress (in fighting corruption that is), if Romania is not accepted'⁷⁶. Similarly, accession into the EU and the preparatory process that precedes it constitute unique levers to control corruption, levers which, if not present, would make way for contrary effects. Both integrational trends are among the most important aspects of Romania's interaction with the larger phenomenon of globalization.

The initiation of the European Union and NATO enlargement process offered Romania the opportunity to escape the transition's trap and to enter an era of reforms, both economic and institutional, meant to bring the country closer to the higher standards of the democratic and developed 'west'. At the same time, such reforms, if genuinely implemented, are naturally conducive towards an improvement of the economic and institutional environment of the entire Romanian society, with the correlative effect of rebalancing the power equilibrium against the vested interests. The final goal of such reforms is to diminish the oligarchs' capacity to capture the state and use it to further their interest, and, therefore, to dramatically increase the capacity of the legitimate actors of the society to implement their beneficial agenda. Essentially, such reforms deepen the level of democracy by economically and institutionally empowering the larger population to have a better impact into the policy making process and to hold the state apparatus accountable. They limit the incentives for corruption and create the favourable environment to strengthen the level of democracy, rule of law, state accountability and transparency.

Accession into the European Union or NATO presupposes adoption and genuine implementation of unambiguous economic and institutional standards, which would automatically diminish the incentives for

⁷⁶ 'Associated Press', 08/19/2002.

corruption that overcame certain post-communist societies. These standards imply the existence of functional political and economic institutions. For example, the NATO Membership Action Plan requires, among other issues, that the aspirants demonstrate commitment to the rule of law and human rights and show a commitment to promoting well-being and stability by economic liberty and social justice. For the EU standards, the most important element is the Copenhagen Criteria. It requires even more drastic conditions and degrees of implementation: stability of institutions guaranteeing democracy, rule of law, existence of a functioning market economy as well as capacity to cope with competitive pressure and market forces within the Union. In particular, the body of laws, generally denominated as *Acquis Communautaire*, requires the imposition of essential standards such as: prevention of conflicts of interest, transparency of public authorities, strong and independent judicial system, strong civil service, etc, all of which have as a main goal the reduction of corruption potential and its structural causes, which developed along the transition.

All these standards essentially run against the partial reform condition, threatening the rent extracting capabilities of entrenched vested interests. Their steady introduction, as a consequence of the former communist countries bid to enter the EU and NATO, runs against the illegitimate interests of transition, which control the gates of concentrated rents. From this point of view, the latter have a strong interest in hampering the adoption or the implementation of the respective economic and institutional reforms. At the same time, the populations of these countries, populations largely constituting the losers of transition, have a strategic interest in supporting such reforms, for they establish essential routes that give them access to unique economic and social opportunities.

It is important in this context to note that the two main regional/international integrators - EU and NATO - have decisive higher scores of credibility among the Romanian citizens than many essential national institutions. Thus, whereas usually EU and NATO score high percentages (over 70% ⁷⁷) of trust among the population, the main

¹⁰A survey by IMAS in 2000 found that 73,2% of Romanians has a good opinion about NATO. The Eurobarometer poll released in 2002 confirmed that 78% of Romanians have a

democratic institutions have traditionally low or even converse percentages of trust⁷⁸. This demonstrates a rather startling reality: that the mentioned international institutions have a decisively larger legitimacy among Romanians than their own governing and democratic bodies. This further presupposes that decisions and opinions of such international bodies have a definitely larger authority than their national counterparts, when they regard similar issues. From this point of view, opinions, recommendations, evaluations from NATO and the EU on the issue of corruption, for example, have a stronger impact and present a more credible stance than the national/official institutions. It is important, therefore, to have frequent and exigent evaluations and correlative recommendations from these bodies, for they have a considerable impact on the population. This further means that the national authorities are to be held responsible for any failures in this respect, as a result of such international evaluations, and compelled into following their recommendations.

In addition, and more importantly, the international institutions can offer the public a very powerful method of evaluation of the government and thus, an effective channel of pressure. Therefore, it is highly important that these appealing international institutions put intense pressure on candidate countries to fulfil their requirements and meet the standards. These pressures bring a decisive contribution to contain the input of the net winners into governmental policies⁷⁹, and thus limit their capacity of preserving the *status quo*, with a corresponding decline in the extent of corruption.

positive opinion about the EU enlargement (from *Nine o'clock*, Monday, February 17 - 2003).

¹¹A survey by SAR (Romanian Academic Society, Early Warning Report, 5/2002, on the w.w.w. <http://www.sar.org.ro/>) in 2002 uncovered a deep distrust with regards to the Parliament (77%), political parties (80%) and the Government (72%), while the Judiciary registered 60% in 2001 (IMAS, Political attitudes and opinions of the Romanian electorate, March 2001).

⁷⁹ See Joel S. Hellman, *Winners Take All: The Politics of Partial Reform in Postcommunist Transitions*, John Hopkins University Press, 1998. The author contends that the transition societies have faced far more serious obstacles from the winners than from the losers of the analyzed period. Therefore, reformist measures in any area should focus on restraining the former from imposing their vested interests on the policymakers rather than on the latter's reticence in supporting them.

The transitional experience demonstrates that, in the case of Romania, a concentrated international pressure on the policy makers has the ability to determine consistent institutional reforms directed against the interests of the transitional winners. However, it is highly imperative that the implementation of such reforms be critically assessed by the same international organizations, for such positive steps might be only the result of an ostensible impulse to curb corruption. Often, the existing institutions to fight corruption are plainly disregarded by the authorities, as a means to cover up corruption cases. Therefore, pressures towards implementation, and not only towards adoption, hold a critical importance in the genuine institutional reform.

That is to say, market or property reform impetuses from external organisms ('Washington Consensus') are not enough to spur genuine democratic environments, and, in particular, a reduction in corruption. They need to be paralleled by institutional reformist impulses, able to correct the potential derails caused by the informal and disproportionate economic and political forces. From this point of view, foreign recommendations are not to be viewed as encroachments against the national sovereignty, since they hold a double legitimacy: a contractual one resulted from Romania's strong commitment to join the indicated institutions, and thus, to emulate their institutional standards, and a popular/electoral one, stemming from the strong adhesion of the population to their values.

In addition, international pressure in the direction of institutional reform has the ability of stimulating and empowering the civil society in campaigning for the same goals. This makes for an effective momentum for anti-corruption measures, able to raise popular support and to coerce reticent governments for further commitment in this direction. In this respect, the institutional pressures of globalization function as a tool, which helps restore the power equilibrium inside the society, by compelling the national authorities to observe the legitimate requirements. They contribute to empowering people, via a foreign legitimate lever, and thus to substantiate formal democracy.

In conclusion, whenever the net winners of the transition succeeded in imposing their agenda, as a consequence of their economic and political abilities, the capacity for further reform, and, in particular, for reducing the incentives for corruption was significantly reduced. Often, such societies lack momentum, mainly because of the population's unresponsiveness to corruption. In such a situation, it is essential that other stimuli, external that is, spur a contrary tendency and put pressure for further reforms. The cases of Romania and Bulgaria are revealing in this regard. The recent invitations to join the EU and NATO may be interpreted as a decision to 'pull' the two countries out of their trapping partial reform equilibrium and to set them definitively on the difficult road of democracy and sustainable market economy⁸⁰. This decision will definitely have a considerable effect on the level of corruption, provided that the international community puts strong pressure towards containing the input of the transitional winners. Institutional reforms risk remaining at a declamatory level, unless external monitoring agencies (like the mentioned ones: EU and NATO) issue strong critical assessments of how anti-corruption regulations are enforced by the national governments.

⁸⁰ See 'Presidency Conclusions' of the Copenhagen European Council, 12 and 13 December 2002, chapters regarding Romania and Bulgaria, on the w.w.w. at: <http://www.foreignpolicy.org.tr/eng/eu/copenhagen.pdf> .