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**WHEN SOCIALISM MEETS CAPITALISM:
CORRUPT PRACTICES AND POST-COMMUNIST TRANSITION.
A COMPARATIVE ANALYSIS**

A Thesis

Presented to the

Department of Sociology and Anthropology

and the

Faculty of the Graduate College

University of Nebraska

In Partial Fulfillment

of the Requirements for the Degree

Master of Arts

University of Nebraska at Omaha

by

Alin M. Ceobanu

August 1998

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THESIS ACCEPTANCE

Acceptance of the faculty of the Graduate College,
University of Nebraska, in partial fulfillment of the
requirements for the degree Master of Arts,
University of Nebraska at Omaha.

Committee

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Abstract

This study examines the conditions of transitional societies that favor the continuous creation and recreation of corrupt practices. By comparing the present contexts of "Westernized" Czechoslovakia (now the Czech Republic) and of the "Balkanized" Romania, I attempt to reveal that a framework for analyzing corruption in post-Communist societies requires attention to the formal structures and informal secondary arrangements. The analysis focuses on two of the multiple determinants of corruption -- the immaturity of civil society, and the method of transferring public property (state assets) to private interests. Concerted actions are needed to curb the implications of corrupt practices. A theoretical model to assess future developments in the region is presented in the end of the study.

Given the conflicting nature of literature in this area, the limited empirical data, and the relative youth of transition processes in East-Central Europe, the author's effort should be seen as a first investigation, and by no means conclusive to the topic. Various sources of information were consulted in an attempt to present insights on the complex network existing between and among social phenomena. The next step will be to subject the main hypotheses of this study to further empirical (and theoretical) analysis, confirming or challenging these assumptions.

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CHAPTER ONE

IN LIEU OF INTRODUCTION

1.1. *Preamble*

After the downfall of Soviet hegemony, which was accompanied by the mass refutation of the Communist ideology, East European countries entered a painful transition¹ process. The generalized crisis altered every aspect of social life; the chimeras of the Communist past have vanished but the future is far from certain. The return to power of the crypto-Communist elites, a nostalgic expression of a “secure” past, proves the high level of disillusionment among almost every nation in the region. Prosperity seems frustratingly out of reach for the majority of people, and corruption is often blamed for the fragility and ineffectiveness of the newly created institutions.

A wind of change has swept in the East-Central European countries

¹ The term *transition*, in my view, has a positive connotation. Its usefulness is limited since it implies the idea of a future success. Still, given its overwhelming adoption by the scholarly community, it seems difficult to abandon it completely. This paper considers *transition*, *transformation*, *metamorphosis*, and *refolution* (Garton Ash 1990) as concepts describing the same societal process, and which is characterized by the simultaneous existence of accomplishments and failures (uncertainties). For example, by the latter, Garton Ash (1990) meant to signify that the process of transition combines reformist aspects with revolutionary processes. The events of 1989-1990 in East-Central Europe were not, by themselves, a revolution (or *revolutions*, if a diversity is to be acknowledged), but phases in a process whose evolutionary or involutory character has yet to be determined. As Offe (1991: 866-67) expressed, what distinguishes the 1989-1990 events from previous revolutionary processes is their insufficient preparation. The dissidents of pre-1989 spent a lot of time to develop their thoughts about democratic pluralism, and market economy, about human rights and civic activism, and comparatively little time analyzing how these values might be coherently implemented. I believe, this conceptual clarification is a necessary ingredient, as this study recognizes the existence of diverse political and economic choices, different possibilities, and unknown ends, for every country in the region.

(Dahrendorf 1990). The disintegration of anachronistic political, economic, judicial, and administrative structures, governed by centralism, conformism, irrationality and inertia, undeniably brought about social chaos. The general transition process, as one can easily observe, is neither smooth nor uniform; it is rather conflictual and convulsive. As a consequence, as one scholar (Verdery 1996) has noted, only a few actors have adapted to the challenges of the new social reality, and have coordinated their everyday behavior according to the rationalistic principle of efficiency.

Despite the fact that the countries of the former Soviet bloc shared similar experiences, they now display a variety of conditions under which transition is carried on. The dynamics of transformation depends on the various meanings associated with the term *reform*, which is differently perceived across Central and East European space. At the same time, expressions of political pluralism and economic decentralization, independent media and humanitarian foundations, secular and religious organizations, as well as other elements of civil society, have emerged or are timidly emerging.

Although there are many variations, the list of common features for all countries in the region include at least the following:

1. National governments want to privatize a substantial number of the state's enterprises, but they do not have a clear way to assess the economic value or a clear method to implement privatization.
2. Communists are still a powerful force both in the political and the economic

arena. In some cases (e.g., Poland, Hungary, Moldova) members of the *nomenklatura* won the majority of Parliamentary seats, and installed themselves in key-positions. In other countries, the Communists lead the political opposition, and are fully prepared to challenge the power in the upcoming elections (for example, Russian Federation, the Czech Republic, or Romania). That Communists are powerful is particularly important to my study, as it reflects why corruption has specific characteristics, which are nourished by the interests of former *appatchiks*.

3. "Honest" politicians are scarce commodity (a fact that gives many headaches to the Western investors, who are thereby forced to add to their list of expenses "grease" money).

4. All of the East-Central European countries want to join the European Union, but they face numerous structural obstacles, like the underdeveloped economic infrastructure, absence of democratic tradition, frequent outbursts of nationalism, or an inertial, anti-modern, mentality.

5. Many of the much hated bureaucrats and second echelon *apparatchiks* comfortably sit in the same offices (the adaptation of the *nomenklatura* could not have been very difficult since its members best knew the absurdity and the agony of the old system).

The present study is necessary for at least two reasons. First, an approach to the phenomenon of corruption cannot ignore the complex reality of East-Central European countries, currently in transition. Second, the journalistic

research on corrupt practices in this part of the world treated the countries in the region as a *bloc*. The category of "Central Europe" alone has limited usefulness. Consequently, any attempt to extrapolate is both irrational and erroneous. The study, then, is intended to shed light on the issue of corruption by taking advantage of both the similarities and the dissimilarities encountered during societal transition.

By comparatively examining the implications of corruption on the economic and political transition of Romania and the Czech Republic, the thesis attempts to answer questions such as: Is corruption the inevitable price to be paid for the decades of Communist indoctrination and planned economy? Does broad-based privatization result in greater corruption than where privatization is delayed? Can privatization programs be designed to lessen the corruption that occurs during their implementation? What roles do liberal democracy, democratic institutions, and civil society play in controlling the level of corruption?

This study differs from past research in several ways. The first point of departure resides in approaching the problem from a *phenomenological* perspective. A phenomenological approach traces social and political change to modifications in peoples' mentalities and ways of thinking, and recognizes that such modifications may have a real (objective) basis or a purely subjective one. On the other hand, a mechanistic approach conceives the causes of change in such statistically measurable coefficients of popular participation, industrial

production or privatization.

The second difference resides in an emphasis on avoiding the mistake of treating Central and Eastern Europe as a bloc, as “Slaka” (the country imagined by Bradbury 1983). Feffer (1992) is one of the authors to offer an excellent argument in this sense, by saying that this part of the world is

... a territorial Frankenstein monster, stitched together from bits and pieces of dead empires and animated for a time by Soviet power. With the virtual end of the Soviet influence, perhaps this creature had been put to rest and the region truly witness “a return to diversity.” (P. XI)

The strategy of selecting and comparing countries that are in some senses at the antipodes, and, in other senses, are not entirely opposed in terms of their socio-historical contexts should be the preferred method of dealing with the issue of corruption in post-Communist countries. A simple description of how things work, by considering the conditions of a specific country as an ideal-type, would lack the benefits of comparative insights.

1.2. *Research Problem*

The primary question this study attempts to answer follows from the above preamble: What is the impact of the phenomenon of corruption on the overall transition process? Related pivotal questions include: Is corruption a particular form of adaptation to situations of social crisis, an optimal response to economic distortions, or the dominant logic of a new social order? How do corrupt practices justify and give meaning to the new social relations? Why are

political pluralism and a market economy insufficient deterrents for corruption? What kind of political and economic order will finally emerge in Romania and other countries, that were former members of the Soviet bloc? How will *entrepratchiks* (Party officials who cleverly adapted to the new reality by turning themselves into respected “businessmen”) and other crypto-Communist groups respond to the threats posed by transition?

These questions constitute the research problem of the study. Its major goal is to investigate the dynamics of political and economic transformation of two former Soviet type countries from East-Central Europe, and the role of corruption in the general transition process, with reference to specific patterns of democratization and privatization in Romania and the Czech Republic.

1.3. *Research Objectives*

Virtually, all East-Central European countries are engaged in a race toward modernization, but they differ significantly in terms of their social, political, economic, and moral advancement, as well as in their leaders' willingness to engage in rapid and successful reformation of all societal subsystems. The difference in conditions across the countries suggests that there will be substantial variation in timing, degree, and modalities of the process of disintegration of the old social structures, and the patterns of political and economic reformation and/or total transformation.

The context of corruption for every country in the region is dependent on

several coordinates, the most significant being; the rapidity of transition to a market economy and the development of new and honest political elites, the degree of Communist indoctrination, and the revival of a sense of civic morality that is currently lost in some of the countries. In this study, the phenomenon of corruption will be approached by comparing the leader of the race toward modernization (Czechoslovakia, and the Czech Republic, after the split) to one of the laggards (Romania).

The main research objectives of the present paper are:

1. To define the phenomenon of corruption and to provide a theoretical and analytical framework, with a particular emphasis on societies in transition.
2. To identify some of the dimensions which make corruption such an important issue in transition societies.
3. To develop a system of indicators which allow comparing the contexts of corruption in Romania and the Czech Republic.
4. To study the partisan interests existing behind the general transition process (the position adopted by the *entrepratchiks* to maintain an unregulated environment that facilitates corruption), and to conclude that the future type of political regime and economic structure for every country in the region is a mystery.

1.4. *The Structure of the Study*

Weaving through the text are the main themes of this thesis: corruption,

political transformation and economic reformation. The study's presuppositions have been set forth above. The next sections of the study apply these presuppositions to the transitional contexts of Romania and the Czech Republic.

Chapter Two presents a theoretical framework on corruption, and provides arguments in favor of the impossibility of a universally accepted definition. The chapter also lays out a working definition of corruption in post-Communist societies. This definition emphasizes corruption as both a perverse effect of transition *and* a deliberate action.

Chapter Three includes an overview of democratization and its tribulations, as well as a theoretical model of the implications of political transformation on corrupt practices. In addition, three basic determinants of substantive democracy (political liberalism, consolidation of democracy, and civil society) of both Romania and the Czech Republic are comparatively analyzed. This chapter also contains an assessment of the importance of civil society for considerations of system's vulnerability to corruption.

Chapter Four presents a mapping of the dynamics and pace of economic transition in the cases of Romania and the Czech Republic. Romania's "road to capitalism," paradoxically, resides in economic involution. In contrast, the Czech version of "returning from Marx to market" consists of a shock therapy, aimed at achieving market-type mechanisms in a short time. Special attention is paid to the process of privatization, in a special subsection designed to clarify the effects of the privatization methods on corrupt practices: are they catalysts or

inhibitors?. The chapter further explores the underground world of *entrepratchiks*, and their attempts to preserve their privileged positions inherited from the Communist regime.

Finally, Chapter Five states that future developments in the region are marked by uncertainty, despite the popular and often unjustified hyper-enthusiasm for capitalism, and concludes that curbing corruption requires concerted action on several fronts.

CHAPTER TWO

THEORETICAL COORDINATES OF CORRUPTION

2.1. *A Definitional Dilemma*

A problem is attached to the concept of corruption. Few terms are more ambiguous than corruption, yet it is in the center of the economic agenda, and it is one of the most frequently employed terms in the political vocabulary. Not only is corruption almost impossible to measure accurately, but it also seems extremely difficult to define, for it is not a unitary phenomenon. Its complexity is directly derived from the variety of forms under which it is operationalized, and from the social consequences it produces.

Many problems associated with corruption are caused by a “principle of indeterminacy,” which can be stated as follows: As long as the factual content is not unequivocally determined and agreed upon, theoretical disputes will abound. Definitional controversies, according to Philip (1997:445), have obscured the idea that the notion of corruption is not by itself problematic: “[Corruption] is rooted in the sense of a thing being changed from its naturally sound condition into something unsound, impure, infected, tainted, adulterated, depraved, perverted, etcetera.” So, given this premise, the problem, therefore, “is not to account for its presence, but rather for its extent in a specific situation at a particular time” (Palmier 1983:207).

A different theoretical stance is taken by Lippmann (1970), who argued

that no history of corruption is possible, but only the history of the exposure of corruption. He helped us further by noting that exposure, invariably, was merely one sequence in a vicious cycle which alternated between “unsuspecting complacency and violent suspicion” (Lippmann 1970:294).

Originally, the term *corruption* comes from the Latin verb *rumpere*, directly translating in “to break,” and thereby suggesting that something is broken. Corruption is pervasive both in space and time, as is to be found in all systems of government and its perennial roots trace back *ad calendas graecas*. The trans-systemic character of corruption is well caught by Alatas (1990):

[Corruption] inheres in all social systems - feudalism, capitalism, communism and socialism. It affects all classes of society; all state organizations, monarchies and republics; all situations, in war and peace; all age groups; both sexes; and all times, ancient, medieval and modern. (P. 3-4)

Due to its universal character, it seems that contrasting democratic and autocratic systems of government, or introducing a distinction between developed and developing countries does not solve the problem because it “permits only a crude approach to the problem” (Meny 1996:314).

In contemporary societies, whether capitalistic or non-capitalistic, the increased concern about corruption is a direct reflection of the growing dominance of bureaucratic administration. Perpetuated among various strata of the bureaucratic management, corruption’s essential objective is to eliminate competition (Clarke 1983:XV), often in “unorthodox” manners. Thus, “the study

of corruption is prone to moralism,” as Nye (1967:417) lucidly wrote.

From an ethical perspective, corruption is the evil on earth, and is frequently related to the transgression of the public duty functions. Wraith and Simpkins (1963:11) expressed that corruption is like “a weed suffocating better plants,” and thus, at the antipodes of good, justice, rationality, reform, and the demands of public weal.

Besides moralism, the second connotation of the term corruption refers to a kind of behavior engaged in the preferential pursue of personal ends. From this perspective, corruption can be approached as a “socially or legally defined term, used in evaluating patterns of behavior” (Heidenheimer 1996:338). Defined by the penal law (more or less distinctive), this type of behavior is subjected to the various arrangements of national judicial systems. La Palombara (1994:4) suggested that the concept of corruption is unambiguous, and that it should be applied to a wide spectrum of human behavior and institutions, in connection to government property (Shleifer and Vishny 1993:559) or to the exercise of government authority (Heidenheimer 1989a:3-14 and 1989b:249-64). This spectrum, thus, is not narrowly defined, so there is little consensus about the boundaries of corruption and about the possibility of a definition that stands the test of time.

Whole papers have been devoted to this subject alone (Johnston 1996, 1991, and 1989b; Philip 1996; Heidenheimer 1989a; Peters and Welch 1978). The most frequently cited definitions of corruption can be grouped into three

categories (Heidenheimer 1970:4-6). The first category is that of “public office-centered” definitions. Nye’s (1967:419) conceptualization of corruption is exemplary in this sense. The second generic type comprises the “public interest-centered” definitions (e.g., Friedrich’s 1966:74 theory on political corruption). The third class of definitions bears the label “market-oriented.” Van Klaveren (1970:39) is one of the most cited authors in this respect, as his definition depicts corruption as sharing similar characteristics with economic exchange.

Admitting the utility of Heidenheimer’s (1970) classification, Philip (1997:440) advanced the idea that the three categories resulted from the various attempts at identifying the *scope* of corruption. Developed at a time when corruption was conceived in political terms, Heidenheimer’s (1970) conceptual scheme seems to have lost its strength. The distinction between “public office” definitions and “public-interest” definitions is not exactly clear, given the present societal context. Without any doubt corruption has generated enormous interest in recent years, but the boundaries of public sphere are clearly critical. The same skepticism surrounds the “market-centered” category, despite the fact that it was intended to be “a morally neutral way of avoiding the pitfalls” (Philip 1997:443) of both “public office-centered” and “public interest-centered” definitions. Moreover, the term “market-oriented,” as one scholar remarked, is not exactly “felicitous” (Philip 1997:443), and presents just *one* perspective on corruption.

In a recent article, Gorta and Forell (1995:315-8) explore various

definitions of corruption, and suggest that they can be categorized into three types. The first class, *legal* definitions, presents corruption as a violation of the standard behavior set down by a political system (e.g., Peters and Welch 1978:974). The second category is that of *public interest* definitions, and asserts that corruption occurs when public trust is betrayed or when the public demand is distorted (e.g., Della Porta and Vannucci 1997). The third type, *public opinion*, unites conceptualizations that have as common denominator a socially defined corrupt conduct (e.g., Heidenheimer 1989a and 1989b).

As with Heidenheimer's (1970) typology, the three categories presented by Gorta and Forell (1995) are ideal-types, so they should be seen as overlapping rather than mutually exclusive. Gorta and Forell's (1995) conceptualization adds more color to the problem of corruption, and proves, once more, that it is virtually impossible to develop one generalizable and uncontested definition.

Quite often, corruption is associated with a hydra-headed image (Meny 1996:316), which pertains to a set of phenomena stretching across all strata of a society, and deeply rooted in the collective conscience. In one sense, it is hard to contest the idea that every `social layer` constructs its own perspective on corruption and shares a different social representation of the *term* corruption. It is exactly this conception that led Rose-Ackerman (1996) to introduce a functional distinction between "low-level" corruption and "grand" corruption. The American sociologist thought that, ultimately, the elite's subculture of corruption

prevails in a society, and that other strata within a society will imitate the “official behavior” from the top: “Observing the kleptocratic behavior at the top, lower level officials seek a share, enriching themselves at the expense of citizens” (Rose-Ackerman 1996:365).

Despite the numerous controversies that surround corruption, central is the idea of subordinating the public interest to the rational principle of maximizing private gains. Nye (1967) offered a classic definition of corruption, seen as a conscious transgression of the public duty functions:

Corruption is behavior which deviates from the normal duties of a public role because of private-regarding (family, close private clique, pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence. This includes such behavior as bribery (use of reward to pervert the judgment of a person in a place of trust); nepotism (bestowal of patronage by reasons of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private regarding uses). (P. 419)

Each of the three forms of corrupted behavior described by Nye (1967)--bribery, nepotism, and misappropriation, refers to a set of unique situations, a *particular* context.

In short, any definition of corruption has to incorporate, at a minimum, the notions of wrongly getting an advantage - pecuniary or otherwise, in violation of an official duty and the rights of others; it also presupposes the existence of a notion referring to what *uncorrupt* is. However defined, corruption exists in all societies, and, in one form or another, is condemned and theoretically punishable everywhere.

Corruption, then, is a term that is hard to describe and conceptualize. It has been neither neatly measured nor fully illuminated by scholarly work. No general theory regarding corruption, commonly accepted by sociologists, political scientists, jurists, economists, and moralists exists. Infinite debates start and end with questions like these: What is more important, the *therapy* (the act of public punishment) or the *prevention* (the developing of deterring mechanisms)? How can one account for the benefits of corruption, if any?

To sum up, far from being a novelty, corruption is continuously constructed and reconstructed, depending on the time, situation, and actors involved. It occupies a central role in the political and economic arenas, as a direct or indirect way to obtain access to power, and has major implications on the society as a whole.

2.2. *Utility of a Sociological Definition*

A realistic approach to the problem of corruption, in my opinion, should consider Johnston's (1996 and 1989b) position: the term corruption should apply to a definable set of actions. There is nothing inherent that makes a behavior "corrupt." Whether an action is corrupt or not depends on a multitude of factors, the most important being (1) *who* defines it as such, and (2) the socio-historical context in which it occurs.

Corruption is "a natural consequence of the use of power" (Sajo 1998:41), being intimately linked with the mechanisms of power and the ways it is

institutionalized. In this context, successful acts of corruption are manifestations of a power “that can be interpreted as a form of human capital acquired through inheritance or investment” (Lui 1996:26). As power is unequally distributed within a society, corrupt acts reflect a particular manner of holding and maintaining the *status quo* through the centralization of power. In this context, corrupt practices are displays of power seeking the preservation of power, or more accumulation of it. Huntington (1968:497) thought of national politicians as being more corrupt than local authorities, and of government officials as being the most corrupt of all. This idea “hits” the bull’s eye: Power corrupts, and absolute power corrupts absolutely.

An important point of departure from past research is to question the existence of a direct relationship between economic development and corruption, as the literature on this subject is contradictory. Respected scholars (Huntington 1968; Nye 1967; Leff 1964) suggested that corruption may be a factor in the process of economic and political modernization. Nye (1967:423) expressed the idea that corruption can have beneficial effects for the functioning of democratic mechanisms in a society. The five conditions breeding corruption, as identified by Nye (1967), are caused by social, political and economic backwardness, as well as by the absence of a unifying sense of morality:

...great inequality in the distribution of wealth; political office as the primary means of getting access to wealth; conflict between changing moral codes; the weakness of social and governmental enforcement mechanisms; and the absence of a strong sense of national community.
(P. 418)

On the same line of thinking, Huntington (1968) suggested that corruption is an indirect means of participation in the decision-making process, and that it can be highly functional during the early stages of modernization, or under conditions of rapid social or economic change. In certain instances, corruption may actually raise economic growth (Leff 1964). The latter theorist advanced the idea that, in the first instance, corrupt transactions, through "speed money," may enable individuals to avoid bureaucratic delay; in the second instance, government employees may work harder (because bribes serve as rate compensations).

Corrupt practices may thus provide practical solutions to important societal aspects (Nye 1967:419). The potentially negative consequences caused by this "private vice," advocate the partisans of this theoretical position, are overcome by the public benefits it produces: economic development (primarily in the formation of capital), national integration (the achievement of a consensus between both elites and non-elites, as well as of a cooperation between the leaders and the masses -- crucial aspects for easing transition), and an increase in governmental capacity to legitimize the newly created institutions.

Modernization is also concomitant with a crisis of values that nourishes social disorganization. The values around which a community (*Gemeinschaft*), a society (*Gesellschaft*), or a way of life was built upon are changed and replaced. As a consequence, "[b]ehavior which was acceptable and legitimate using

traditional norms becomes unacceptable and corrupt when viewed through modern eyes" (Huntington 1968:60).

More recent studies take a different approach regarding the relationship between economic growth and corruption. Rose-Ackerman (1996 and 1978), Johnston (1996 and 1989b), Braguinsky (1996), Mauro (1995), Shleifer and Vishny (1993) are among the authors who identified a positive correlation between economic backwardness and the amount of corruption existing in one country. Their argument rests on the following premise: "speed money" may only increase the efficiency of transactions in countries where bureaucratic regulations are excruciatingly cumbersome. Furthermore, government officials can artificially create delays in order to be bribed. In conclusion, the proponents of this perspective argue, corruption increases transaction costs, and thereby hinders the efficiency of market processes.

Mauro's (1995) analysis, to my knowledge, is the only empirical study that identified a direct relationship between low foreign investment and high levels of corruption. Its validity is questionable since (1) the conclusion was drawn exclusively from observations of developing states, and (2) his "corruption indices" were based on the subjective judgment of foreign business analysts (and not on reported cases of corruption). Furthermore, the judgment of these analysts might have been very well influenced by each country's economic performance (which is not totally dependent on internal factors), and so, it cannot be taken for granted. In addition, Mauro's study posited that political

institutions remain constant, an unrealistic assumption in modernizing or transition societies.

Such theoretical controversies can only lead to the assumption that the relationship between economic performance and corruption is not straightforward. A recent analysis (1997) of *Transparency International* among 52 nations (see Appendix) used an index of corruption to rate the countries based on the *perceived* levels of corruption. This rank, however, offers no discernable pattern between economic development and corruption, and thus supports the hypothesis regarding the economic context of corruption. Still, Romania is ranked lower than the Czech Republic (and thereby has a higher level of corruption), suggesting that a possible association between economic *context* and corruption may exist.

Given the fact that every East-Central European country attempts to modernize its structures, and that corruption is contextually defined, I see the difference between the corruption indices of Romania and the Czech Republic as resulting from the various ways of rationalizing transition. Better candidates for independent variables include (a) political reform, and (b) economic strategy.

The second point of departure with the past studies is to question the possibility and the utility of a distinction between political corruption and economic corruption. As stated earlier, corruption is an expression of power, and power is an attribute of elites, it is *rooted*. Crudely, it can be stated that those who control the means of producing and distributing wealth, as well as the

means of coercion and persuasion, have power over those who have not. In this respect, any distinction between political sphere and economic sector is ubiquitous, for the two societal subsystems are intertwined and it appears to be very difficult to establish the boundaries of each.

Mills' (1956) concept of "power elite" (consisting of the warlords, the corporate chieftains, and the political directors) catches the monopolistic nature of power in contemporary societies. Also, Dye's (1995) concept of "institutional elite" suggests the same idea of power concentration within the corporate world (e.g., in the United States, a number of 7,314 positions occupied by a little over 6,000 individuals, from 12 different agencies grouped in three big sectors -- the corporate, the public interest, and the governmental -- form a national elite, which exists as a set of interrelated institutions).

In every society, by virtue of similar origins and education (Dye 1995), those in command of major institutions share the same codes and values, as well as similar material interests. As Domhoff (1983:1) puts it, "this ruling class is socially cohesive, has its basis in the large corporations and banks, plays a major role in shaping the social and political climate, and dominates the government through a variety of organizations and methods." Corrupt acts will bear, then, the features of this monopolistic concentration of power, having a political and economic character at the same time.

The third necessity of a more systematic approach to corruption is to avoid the pitfalls of a widely spread tendency to personalize corrupt acts.

Believing that one thoroughly corrupt individual is the cause of it all is as wrong as accepting the idea that everybody is corrupt or can be convinced to engage in such practices. Personalization responds to a human (others would probably say prurient) interest in what people do, act or think rather than to abstract notions of how society functions.

In an “unfinished democracy,” such as Romania, politics has an anthropomorphical character. A long history of perceiving and describing the authority of the state in terms of the person(s) holding the executive power exists there. Personalizing the problem of corruption (as well as other “social plagues”), in Judeo-Christian cultures, responds to the propensity to see both redemption and punishment in *individual*, and not in general (holistic) terms. It would be impossible to punish the society in its entirety, anyway, so *someone* has to be held responsible for the existing malfunctions.

The fourth effort toward a sociological definition is to approach corruption as a feature of local culture. This is neither a legalistic, nor a public opinion/interest perspective. Not only are both prone to much theoretical debate, each claiming to solve once and for all the controversies of the concept, but they leave little room for the interpretation of the new, post-Communist forms of corruption. In this part of the world, corruption is not just some sort of misdemeanor described by the criminal legislation of a specific social system (Meny 1996:311), but a part of the local culture: The rules by which people live conflict systematically with the norms written into laws because of the failure of

the formal subsystem to meet popular demands.]

Legal definitions are preferred by scholars for the element of clarity they introduce: Corruption is what the *law* defines it as such. The intrinsic assumptions of this type of definition can be stated as follows: Rules, regulations, and codes impose a limit on human behavior, and determine a desired line of conduct. Every social system creates laws and institutions of enforcing these laws in a specific manner. In reality, deviant practices are so slippery and complex, that it is difficult to make them fit the descriptions of the penal code. The law, in most instances, does not define a category of social acts, actions or behaviors as "corruption." Instead, the law focuses on the definitions of various subsets, such as bribery, graft, fraud, extortion, excessive discretion (office abuse), etc.

Another objection of using the law as a standard to determine the appropriateness of a conduct is that the actions of officials cannot and have not been settled by systems of rules. The law may not cover the cases that are publicly perceived as corrupt. Very disturbingly, the law can itself originate in corrupt practices (for example, numerous senators are bribed). Thus, that an act or norm is legal or officially regulated does not necessarily mean that is not corrupt. Many laws regulating official conduct rest on prior assumptions about what *uncorrupt* is, and on the presumed immaculate character of politics.

Appeal to public opinion/interest definitions is equally fraught with problems. There is no agreement on how to define the public interest: what is

'corrupt' depends on what the correct public duty is determined to be. This, in turn, is influenced by cultural issues and the accepted behavioral standards of a society.

Public opinion is an important element in the equation of corruption, but a question should be raised here: To whose opinion do people give most weight? The norms of a local community can be in conflict with those imposed by central institutions, and so, the "public opinion" may differ between sectors of the population, either vertically (between different strata) or horizontally (between different ethnic groups or social segments).

Moreover, public opinion is not something stable, it changes quite frequently. Heidenheimer's (1989b and 1996) conceptual scheme (white corruption - black corruption - gray corruption) is useful as a measure of public opinion's perception of corrupt acts, but it fails to account for variations and modifications of the public opinion. The level of corruption will depend on public opinion's tolerance threshold (quantitative or symbolic), which, in turn, depends on the influences exerted by mass media. Thus, sporadic corruption might be or might not be tolerated by the public opinion at a certain point in time. That is why other societal factors have to be considered for a more solid explanation of the phenomenon.

2.3. Between Perverse Effect and Deliberate Action: An Operational Definition

In East-Central European countries, corruption must be understood both

in terms of a perverse effect of societal transition and a deliberate type of social praxis. As a perverse effect, corruption is associated with a totally uncontrollable and unwanted set of phenomena (an “inevitable price” to be paid), facilitated by a propitious context like that of the general transformation of society. The deliberate character of post-Communist corruption refers to a type of action that results from purely pragmatic choices, and that reflects the “amoral” interests of the “new old” class.

Such a conceptualization is intended to solve a fundamental problem of any attempt at a comparative approach on corruption, namely to arrive at a definition that lends itself to a cross-cultural and cross-national research. The question of arriving at such an operational definition is important for discovering *why* and *how* the different meanings of corruption change over time.

Corrupt practices, as stated earlier, are seldom confined to the field of penal law, and public’s awareness depends on too many variables. That is why, a relational-comparative approach that puts the betrayal of the public trust in the center of the scheme, without ignoring the normative view and the public opinion/interest perspective should be developed. A comparative focus on individual or collective behavior, with low- or large-scale implications, can provide guidance to those who perceive corruption as a “mass of incoherent phenomena,” to use Nye’s (1967:417) words. In addition, a relational-approach cannot omit actors’ motives when they engage in some sort of illegal or improper exchange. Corruption can take the form of a particular type of “communicative

action” (Habermas 1984), in which an initiator and a recipient develop or consolidate a dyadic relationship, as part of a larger social network.

In East-Central Europe a diversity of conceptualizations regarding corruption can be imagined. However, for the purposes of this study, post-Communist corruption will be defined as:

- ① a behavioral failure to exercise the invested authority in terms of public good, often in the form of a clandestine exchange in return for some profit;
- ② an individual or collective failure to rationalize the legal transfer of state’s authority and assets to its citizens;
- ③ a contagious social praxis, nourished by certain strata of a “truncated society” (Matejko 1992), which jeopardizes the success of reforming the system.

Corruption implies an interaction or an agreement between two or more social actors to use resources they control in ways that are not consonant with the social, economic, and political interests of the people at large.

This study is not merely focused on corruption related to mass privatization and the methods by which large-scale economic transformation is currently implemented, but it will also deal with issues of *spontaneous* privatization, like robbing the state through illicit or at least improper gains by individuals and groups prior to the *great* privatization (appropriation) or throughout the entire period that elapses between the fall of the Communist

regime and the privatization of enterprises and other state-owned assets (Popescu-Birlan 1994). So, corruption in the period of post-Soviet rule exists either because no pluralism of power and no privatization have occurred at all (as happened in the early stages of the reform) or because the preferred method of democratic pluralism and privatization, its timing, pace and transparency are a fiasco.

This position is consonant to that adopted by Huntington (1968), Nye (1967), and Leff (1964): In a modernizing society, corruption is a perverse effect of transition, as the new ruling class attempts to create opportunities for economic appropriation. The sites that are most inviting to corruption in a disorganized, modern society are the economy and politics, for most of society's resources depend on these two subsystems. Meny (1996) describes the perverse character of corruption associated with transition in a very suggestive manner:

Corruption spreads out in a propitious context. The transition from a command to a market economy offers sufficient incentives to engage in corrupt practices. The economic freedom [combined with a lax legislation] was compared to that of a fox in a henhouse. (P. 316)

As deliberate action, the study of corruption focuses on personal choices. The individual is conceived as a rational actor, one who makes utilitarian choices in a specific social, economic, and political context (Coleman 1990). A rational actor will use corruption to adapt to the new reality of turmoil and instability, and will effectively participate in the construction of the future social

architecture.² The explicit design of the newly created social institutions reveals the importance that is attributed to corrupt practices, as an efficient mode of social control.

The stratified nature of the changing social structures creates obstacles to legitimate social mobility. In addition, people in a disorganized society are extremely vulnerable to the caprices of both 'petty' and 'grand' bureaucracy, and a propensity to resort to deviant means in order to achieve socially approved or highly valued individual goals (e.g., economic success, prosperity, prestige) exists. Merton (1968) termed the persons that succeed in accomplishing their goals as *innovators*.

Derived from capitalism's inherent logic, there is a driving principle to maximize profits (gains, income), that can be internalized at an individual or organizational level, depending on who acts as an economic agent. The higher the firm (like the state-owned enterprises), the more resources to survive competition to maximize profit it has.

The desire for gain might be strong and permanent, while the legal and moral contexts are subject to change and, thus, are able to alter the outcome of the initial calculation of the rational actor. The rational urge for gain will be placed in check by the equally rational urge not to be subjected to sanctions, whether legal or social. In this case, it is clear that the burden of a sociological

² For a good distinction between primordial social and constructed social organization see James Coleman, "The Rational Construction of Society," *American Sociological Review* 1993, Vol. 58, Pp. 1-15.

approach toward a better understanding of corruption is placed not just on the individual actor, but also on the (changing) context within which an actor makes choices.

Many people within societies in transition put the blame on the perpetuation of several malfunctioning mechanisms of the past, as primary sources nourishing corruption. While true, such an explanation is only partial, as corruption in Romania, the Czech Republic or elsewhere across the ex-Soviet Empire has multiple determinants. The difficulty of dealing with the issue of corruption in post-Communist societies arises from: (1) the incentives of engaging in corrupt practices are sought in different directions, depending on one's ideological stance and preferences; (2) the "newness" of the phenomenon of corruption in ex-Communist countries is a subject of conflicting assessments; (3) the scale of corruption inside each society is also a theme of much controversy.

The motives behind corruption vary little, regardless of the surrounding environment. For example, one might say that all social actors, whether acting in a transition or a market economy are self-maximizers (Cheung 1996:1). Politicians, government officials, magistrates and union leaders are no exception to this feature. The willingness to engage in corrupt practices is a deliberate option, and can be motivated by personal greed, lust for power, or a get-it-while-you-can attitude (making a "fast buck"). When public officials of the highest level (like ministers and political appointees) are subject to short tenures because

they may become self-aware scapegoats for perceived policy failures, the short time horizon may lead to the “sin” of enrichment (extracting as much wealth as possible from the remaining hold in power).

Willingness alone will not lead to corruption. Opportunity and incentives are required, and they depend on the socio-economic institutions existing in society. For example, opportunity will flourish where there is a high degree of discretionary power (Rose-Ackerman 1996:372). As such, the nature of corruption and its degree of pervasiveness vary greatly from one society to another.

The “new” character of the post-Communist corruption in East-Central Europe is a contradictory theme, as well: Are the “transitional” forms of corruption totally different from the ones existing during Communism? What are the origins of the type of corruption that is associated with post-Communism? Clearly, in every country of the region corruption contains elements of both continuity and discontinuity with the past. The elements of continuity refer to the unwanted maintenance of structural dysfunctions (the elimination of cultural traditions accepting or favoring corruption is virtually impossible). The discontinued character of corruption brings up, in various degrees, its potentially positive consequences. To which extent, then, is present day corruption the price paid for the decades of having no market and no political pluralism?

If the incentive structures that underlie corruption are changed, then, it is believed (Mauro 1995), corrupt practices may scale lower inside a society.

Under private enterprise, the capital is fluid (or, at least, more fluid than is the case with a state-owned enterprise), and the resources are movable. On the other hand, protectionism creates numerous opportunities for amoral behavior among public servants and elected officials. So, privatization and market reforms can reduce the opportunities for corruption, by limiting the role of the state. But, the longer the road to large-scale privatization, a "road" characterized by deregulations of all kind, the longer the executive discretion of the *nouveau riche* stratum, and the wider open the door for corrupt behavior. Unlike the Czech Republic, which has undergone radical market reforms (Jezek 1997; Reed 1995), the Romanian officials were less willing to minimize state's participation in this process (Earle and Telegdy 1998; Sirbu 1995; Popescu-Birlan 1994; Campeanu 1993; Frydman, Rapaczynski and Earle 1993). Not only are they perpetuating the inefficiencies of the Communist past, but they are also adding more trouble to the existing problems.

CHAPTER THREE
UNFINISHED DEMOCRACY. POLITICAL TRANSFORMATION
IN ROMANIA AND THE CZECH REPUBLIC

3.1. *The Agony of a Myth*

The aim of this chapter is to analyze the tribulations of democratization in Romania and the Czech Republic, and to assert that democracy is a necessary ingredient in the early stages of structural modernization. A high level of civility, in my opinion, can foster a civic and democratic culture, which is a major factor in the equation of corruption.

Democracy is not something stable or fixed. It refers to a continuum that changes over time.³ Thus, we either have to consider as unnecessary a definition of democracy, on the premises that *everybody* knows what democracy is, or we have to take as pillars in favor of a definition the common elements existing in societies whose democratic character is beyond any doubt. Also, the tactics of using dichotomies, so frequently employed during the cold war years, between “the Communists” and the “liberal/free market democracies” is completely unhelpful here. Post-Communist states have rid themselves of the ideology that privileged one-party rule and command economies, but not of the political culture in which people were socialized.

³ For an introduction to the variety of definitions and meanings associated with the word *democracy*, see Giovanni Sartori, *The Theory of Democracy Revisited*, 1987, Chatham NJ, Chatham House, chapters 1 and 9.

The democratization of post-Communist countries, according to Mason (1992:113), face a number of daunting obstacles:

- a) the large number of people and the complexity of the institutions, legal structures, and patterns of behavior necessary for a stable democracy cannot be achieved instantly;
- b) the lack of a democratic tradition, in most cases;
- c) the unprecedented nature of the transition from state socialism to liberal democracy;
- d) the high degree of ethnic diversity.

All East-Central European countries are now engaged in a process of “inventing democracy” (Lefort 1991), so the trend in the study of post-Communist politics is toward the identification of a hybrid category -- *proto-democracy* (Tismaneanu 1992).

In Romania, and possibly in other former Soviet satellites, democracy is a generalized ideal, an aspiration for a better living, a hope of deliverance. The perception that democracy is a *panacea* for the sufferings people endured during the long period shortages of all kinds has grown and reached proportions of absurdity after 1989. The “economicization” of democracy (believing that democracy is a system determining certain solutions not only in the area of politics, but in the area of economics as well), together with the institutionalization of a material pre-eminence in human relations led to the emergence of a culture of *embourgeoisement*, a dangerous substitute for an

authentic political culture.

The formal character of democracy is the indispensable presupposition of the democratic social condition. Democratic theorists indicated that popular participation itself is absolutely necessary for meeting democracy's formal criteria. However, widespread *participation* has to be accompanied by political *competition* for an effective democratic system (Dahl 1971:1-10). The same idea is shared by Schmitter and Karl (1993), who argue that

"Modern political democracy is a system of governance in which rulers are held accountable for their actions in the public realm, by citizens acting indirectly through competition and cooperation of their elected representatives." (P. 40)

Kaldor and Vejvoda (1997:63), in an effort to introduce a distinction between "formal" democracy and "substantive" democracy, assembled a list of formal criteria by adapting Dahl's (1982:11) set of 'minimal' procedural conditions:

1. *Inclusive citizenship* (exclusion from citizenship purely on the basis of race, ethnicity or gender is not permissible);
2. *Rule of law* (the government is legally constituted, and the different branches of government must respect the law, with individuals and minorities protected from the 'tyranny of the majority');
3. *Separation of powers* (the three branches of government - legislature, executive and judiciary - must be separate, with an independent judiciary capable of upholding the constitution);

4. *Elected power-holders* (power-holders, i.e., members of the legislature and those who control the executive, must be elected);

5. *Free and fair elections* (elected power-holders are chosen in frequent and fairly constructed elections, in which coercion is comparatively uncommon, and in which practically all adults have the right to vote and to run for elective office);

6. *Freedom of expression and alternative sources of information* (citizens have the right to express themselves without the danger of severe punishment on political matters, broadly defined, and a right to seek alternative sources of information; moreover, alternative sources of information exist and are protected by law);

7. *Associational autonomy* (citizens also have the right to form relatively independent associations and organizations, including independent political parties and interest groups);

8. *Civilian control over the security forces* (the armed forces and police are politically neutral and independent of political pressures and are under the control of civilian authorities).

Kaldor and Vejdova (1997:65) further assessed the extent to which democratizing countries from Central and Eastern Europe meet the formal criteria as defined. Table 1 summarizes the findings with respect to the Czech Republic and Romania.

Table 1

Main Criteria of Formal Democracy in the Czech Republic and Romania

Nr.	Criteria of formal democracy	Country	
		Czech Republic	Romania
1.	Inclusive citizenship	B	A
2.	Rule of law	B	C
3.	Separation of powers	A	B/C
4.	Elected power holders	A	A
5.	Free and fair elections	A	A
6.	Freedom of expression and alternative information sources	A	B
7.	Associational autonomy	A	A
8.	Civilian control of the armed forces and security forces	A	B

A = Formal procedures are in place and mostly implemented.

B = Formal procedures are in place but incomplete implementation.

C = Formal procedures are in place but hindrances to implementation.

D = Formal procedures are not in place.

Source: (Mary Kaldor and Ivan Vejvoda, "Democratization in central and east European countries," *International Affairs*, 1997, Vol. 73, p. 65)

Table 1 illustrates that the only criterion of formal democracy in which Romania is ranked higher than the Czech Republic is "inclusive citizenship." After the split of Czechoslovakia (January 1, 1993), many Roma people did not

automatically qualify for Czech citizenship for procedural reasons (citizenship equals no criminal record during the previous five years). However, this provision was later removed under pressure from international organizations. The separation of powers is less in place in Romania than the Czech Republic, as the candidacy of former President Iliescu to stay for a third period in the office was legitimized by the judiciary. This aspect should not be a surprise since this branch of the Romanian executive is totally controlled by the Communists and their acolytes, and the polls constantly indicate population's low investment of trust. All the judges of the Supreme Court, appointed for life, got the investiture during the first term of President Iliescu. As a consequence, their loyalty to him is unquestionable.

Another matter, with important implications for the existing level of corruption in both countries, resides in the control of civilian authorities over the military. An open control of the civilian ministers over the armed forces is a measure intended to balance the symbolic power accumulated by high-rank officers and to avoid arbitrary manifestations of their authority (like *coups d'etat*, rebellions, or illegal business and arms trade). In the Czech Republic, civilian ministers were appointed starting with 1990. In Romania, on the other side, after a few terms with generals as ministers of the armed forces, the idea of introducing civilian ministers became a necessity in order to satisfy the requirements for admission to NATO and to European Union.

The existence of formal mechanisms and procedures, which represent an

a priori barrier against abuses of power, is a necessary condition, but by no means sufficient for democracy in a substantive appearance. For example, the Communist regimes in Eastern Europe, which called themselves “peoples’ democracies,” were actually pseudo-democracies. Obviously, some exhibited more germs of authentic democratic features than others.

The Communist states possessed elected legislatures, regular elections, and even civil rights that were constitutionally guaranteed. However, several important differences from the Western-type democracies existed. The first of these pertains to civil rights: In a democracy, ideally speaking, civil rights are *absolute*, while those in the Communist party-states were *qualified* (the rights were guaranteed only in accordance with the interests of the people, presumably to strengthen and develop the socialist system). The interests of the people were represented by the state (and not by the institutions of a civil society), which had priority over the rights of individuals.

Also, another difference is the absence of pluralist political parties and independent associations. The Communist Party was guaranteed the “leading role” in society, while other organizations existed within the umbrella of a “national front” of some kind, but unable to adopt policy lines independent of the Communist Party. The excessive emphasis on “community” or “people” is dangerous because, as Heller (1988:131) remarked, this idea, under various guises, led in the twentieth century to the horrors of totalitarianism: “All those who want to replace formal democracy with the so-called substantive

democracy, and thereby reunify the state and society in a totalizing way, surrender democracy as such.”

3.2. *Basic Determinants of Substantive Democracy*

Formal democracy is a set of rules, procedures, and institutions. However, democracy is not reducible to these abstractions. Substantive democracy is a process that has to be continually reproduced as a way of living, or a manner of “regulating power relations in such a way as to maximize the opportunities for individuals to influence the conditions in which they live, to participate in and influence debates about key decisions which affect society “ (Kaldor and Vejvoda 1997:62). In short, substantive democracy is democracy *in actu*.

How are the formal criteria of democracy implemented in practice? The answer to this question is difficult since the extent to which a particular society is characterized by an authentic political culture, in which the tendency toward equalization of political forces is real, and individual participation in the decision-making process is secured. The three key ‘features’ of substantive democracy chosen to focus here will be addressed comparatively for Romania and the Czech Republic. In my opinion, these ‘features’ constitute the core of a democratic life, though, by no means, they stand as an exhaustive list of applied democracy. The three characteristics used to review political transformation and to comparatively assess Romania’s and the Czech Republic’s positions on the

democratic continuum are:

- a) liberal democracy (political pluralism and voting);
- b) democratic acculturation (accepting the rules of the game and the strengthening of democratic institutions through political acculturation);
- c) civil society (the success in balancing the state power and the restoration of civic values' authority).

While liberal democracy addresses the crucial aspects of elections and political participation, democratic consolidation focuses on the pivotal role of political elites for the transition from dictatorship. Finally, civil society, an important aspect of substantive democracy, involves the development of institutions capable of checking the abuses of the state.

3.2.1. *Liberal democracy: rejection via election.* The notion of "liberal democracy" has a praxiological connotation, as it describes the simple procedure that allows for the election or rejection of the candidates: "The essence of liberal interpretation of voting permits the rejection of candidates or officials who have offended so many voters that they cannot win an election" (Riker 1982:242).

Clearly, it was the major "deficiencies" in liberal democracy (the absence of political pluralism, no authentic electoral choices and total disrespect for the human rights) that conditioned the early liberalizing actions of the post-Communist regimes. In both post 1989 Czech Republic and Romania, one of the

first political actions initiated was the elimination of the provision for one-party dominance. Together with this elimination, the door for political diversity was opened.

However, the possibility of voting political leaders out of office did not materialize over night. Romania remained in the hands of the direct successors of Ceausescuism for several years. In May 1990, Romanians went to polls and elected a second echelon *appartchik* as the head of the executive. Apparently, well-supported charges of unfair conditions for campaigning accompanied the pre-election period. International and domestic observers signaled numerous attempts at fraud. Still, despite these irregularities (which should be seen as signs of democratic immaturity), the results of the elections were accepted worldwide. Until 1996, former Communists won the general elections in Romania, as they constituted the most important force on the political arena and faced no coherent democratic opposition. Political criticism was discouraged (supposedly to ease the economic transition), and government's agenda reflected concern for stability rather than democracy. The quasi-majority of the first parliamentary candidates included many of the former regime's regional Communist bosses and several ex-close associates of the late Ceausescu couple. However, this tendency diminished as the electorate started to realize that the former *nomenklatura* members could not abandon favoritism and clientelism, practices they mastered during the previous regime.

The February and September, 1992 elections indicated a decline in

popularity for the former Communists. Despite considerable irregularities and power's tampering with electoral procedures noted by international observers, opposition to the Communists won a considerable number of mayoralities, providing proof for the multiplication of centers of political power. This gradual shift continued until the November, 1996 elections, when Romania rejected the remnants of the Communist old guard and their ideological conservatism. Many former Communists who held positions of political influence (as former President Iliescu stood by their side, in a vast network of reciprocity) were forced to step down. The newly elected president, Emil Constantinescu, a political and economic liberal, publicly declared war against bureaucratic corruption, and the mentality that saw democracy as a good opportunity to accomplish a little totalitarian and often disguised goal: that of becoming a "master."

If peaceful alternation in power of divergent political forces occurred in Romania after seven tumultuous years, the Czech Republic proved that the mechanisms of political competition can successfully operate (being thereby accepted by the political actors) without *apparatchiks'* interlude. As early as June 1990, Czechoslovakians went to polls in what was considered to be the first free national parliamentary elections after the Velvet Revolution. A majority of the important positions in the federal government were filled by Charter 77 activists, strongly committed to democratic principles. Neo-Communist parties were discredited by the people, as President Havel's *Civic Forum* gathered substantial mass support. Its Romanian counterpart, the *Democratic Convention*, suffered

for a long time from “childhood illnesses”.

President Havel wanted to avoid a witch hunt against Communists, if only because more than half of the signatories of Charter 77, founding fathers of the *Civic Forum*, were themselves former members of the Communist Party. Still, Havel could not resist the forces that posthumously denied official honors to Aleksander Dubcek, the man who attempted to create “socialism with a human face,” and who courageously led the Communist Party during the 1968 Prague Spring. As later disagreements in the *Forum* revealed, the Czechoslovak “democrats” had a long way to go before they assimilated a culture of dialog.

After the 1993 split of Czechoslovakia, the Communists went on the offensive, but the voters did not respond to this counterattack. The memory of Communist abuses was too strong, and the electorate, acting liberally, rejected the neo-Communist candidates. This anti-Communist zeal never disappeared (especially among the leaders of the *Civic Forum*), leading to the purge and denial from public life of every Czech who held any office under the Communist regime or whose name ever had popped up in the files of the secret police as “informer,” “collaborator,” or “agent.” The Czech lustration illustrates a clear example of illiberal democracy, in that it excludes the Constitutional rights of those who have not been found guilty of a punishable offence. It is important to say that, too, lustration constituted one of the demands of the “Timisoara Declaration” (March 1990), signed by a number of individuals now prominent in the Romanian *Democratic Convention* (for example, the current President, Emil

Constantinescu). However, the Romanian anti-Communist fervor did not reach the Czech proportions, partially because in 1989 the power was taken over by second echelon *apparatchiks* (and not peacefully transferred to the civil society leaders, as was the case in Czechoslovakia).

However, free and uncontested elections (as had been the case with both the Czech Republic and Romania) need to be complemented by political participation in order to further advance on the road to democracy. All parties of the political spectrum attempt to broaden their membership, but they are coming up against a wall of anti-political sentiments. People's reluctance to engage in politics has its roots not only in the legacy of prolonged exposure to an over-politicized (ideologized) public and personal life, but also in a sense of powerlessness, of inability to influence adverse political actions or social phenomena (like curbing corruption). The absence of a public sphere, an arena for dialog and various opinions, is often conducive to political cynicism and apathy.

An effective party system, existing in every democratic society, has yet to be developed in Central and East European countries. Dozens of small parties exist with broad integrative coalitions, such as the Czech *Civic Forum* and Romania's *Democratic Convention*; both were born as attempts to dissipate the power of *nomenklatura*. Many parties in Romania and the Czech Republic are often too small and weak to be able to win Parliamentary seats; political alliances are too large, ephemeral, and heterogenous to effectively aggregate

and articulate interests and develop coherent social programs.

3.2.2. *Democratic acculturation: accepting the rules of the political game.*

Both Romania and the Czech Republic, as I have tried to suggest earlier, can be regarded now as liberal democracies. The first criterion of substantive democracy is a precondition for the second one, democratic consolidation. As defined by some scholars, the notion of democratic consolidation envisages a situation characterized by the "... absence of serious conflict among politically significant groups over the acceptability of the best framework for political contestation" (Gunther, Puhle, and Diamandouros 1995:20).

Thus, democratic consolidation is a direct measure of the degree of implementing liberal democracy, by capturing its gradual acceptance among members of the political elite. This term encompasses the idea that elites are responsible for important societal outcomes, because of their capability to influence non-elites. High-level politicians, government officials, and other influential decision-makers thereby not only acknowledge the supremacy of the popular vote, but are also inclined to approve constitution's legitimacy over the entire society.

It took longer for the Romanian elite than for the Czech one to internalize the legality of rejecting undesired candidates and get accustomed with the rules of the democratic game. Part of the explanation resides in the composition of the post-1989 Romanian political elite (overwhelmingly dominated by the second

echelon *apparatchiks*), but also in the length of Iliescu governance (seven years). Even though the Romanian opposition lived through some turbulent moments, it demonstrated political maturity when it took the reins of power in November 1996. The smooth transfer of authority at that time suggests that the political system has undergone profound changes, and that political substitution is no longer being sought through demonstrations, manifestations of force or direct confrontations with opponents, but chiefly through ballots.

Also, recent Czech history best exemplifies how political change can be peacefully implemented. It all started with the "Velvet Revolution" (a short period of street demonstrations), and with the resignation of the Communist President Gustav Husak, Premier Ladislav Adamec, and Party leader Karel Urbanek. This consensual surrender of power by the Communists, at that time, was considered to be unprecedented in the history of mankind. The next phases entailed consolidation of new political institutions, together with the development of a mentality that a rotation out of power is part of the democratic game (*everybody* is subjected to democratic norms).

Schmitter (in Mason 1992:116) argued that the process of democratic consolidation can be extended over many years or even decades, and that the full development of parliaments and interest associations is crucial. He further advanced the idea that three full legislative sessions (or a minimum of twelve years) is necessary to do this. Dahl (1971) suggested an even longer time frame, measured in generations, necessary to develop widespread tolerance for

diversity and a sense of mutual security among participating political actors. If this is the case, due to its earlier start of the process of democratic consolidation, The Czech Republic is better placed than Romania in the “race” toward modernization.

3.2.3. *Civil society: balancing the state power.* The term “civil society” is employed in the political vocabulary as the ultimate measure of the state of democracy. It usually refers to a society’s capacity to articulate its interests independently of the state. Civil society emerges when the pluralistic aspects of democracy have been affirmed and entrenched to the extent that a wide variety of organizations and institutions not controlled by the state help uphold the political system:

[Civil society is] that set of diverse, non-governmental institutions which is strong enough to counterbalance the state and, while not preventing the state from fulfilling its role of keeper of the peace and arbitrator between major interests, can nevertheless prevent it from dominating and atomizing the rest of society. (Gellner 1994:5)

In this sense, civil society is the number one enemy of a system that promotes social atomization, as a necessary condition for its survival and reproduction.

During the 1980s, in some East-Central European countries (Poland, Hungary, Czechoslovakia), “civil society” had a very specific meaning, referring to the necessity of preserving an autonomous public sphere which could guarantee individual rights and check abuses of the state. During the Communist

reign, the term was used to denote a set of values having to do with democracy and freedom. For this reason, attempts to build a civil society were severely crushed. The Czech Republic and Romania differ significantly if “civil society” is used as an indicator of both democratic and moral reformation of the system. The history of the last 30 years in the Czech (and Slovakian) space is illustrative for the existence of a *tradition* of civil society. Romania, on the other hand, cannot share the same pride. A brief review of the most important moments of this history illustrates this distinction.

A. The Czech Republic. In January 1968, Alexander Dubcek replaced the Stalinist Antonin Novotny, as the Czechoslovak Communist Party’s first secretary. Influenced by Ota Šik’s (1985, 1981, 1976, and 1967) ideas on economic liberalism from the early 1960s (regarding the Communist bureaucracy and power system, socialism’s perversion and the necessity of a “third way”), Dubcek soon began an unprecedented effort aimed at systemic reform, in order to give socialism “a human face.”

Nonetheless, even before 1948 (when Czechoslovakia was subjugated by the “liberating” Red Army), a “culture of civil society” existed, especially in Bohemia and Moravia (the historic regions that form the Czech Republic). One cannot deny the role of Hussitism’s⁴ individualistic values and the legacy of German bureaucratic system to the creation of such a culture. Hussitism left

⁴ Movement aimed at reforming the church initiated by Jan Hus, who was burnt at the stake in 1415 as an example of heresy. Prof. W. Bacon’s comments were very helpful here.

indelible imprints upon the Czech cultural context, most notably the rejection of the corporatist ideas. The founder and the president of Czechoslovakia, Tomáš Garrigue Masaryk, cast himself in Hussite intellectual tradition, by guaranteeing stability and by remaining above the domestic political fray. In addition, the German *meritocratic* bureaucracy favored the emergence of a “culture of civil society” by valuing honesty, professionalism, discipline, and separation of spheres of authority. Unlike the Byzantine apparatus, Habsburg institutions were guided by the rule of law, and not by arbitrariness. It is notable mentioning that the official language of the Habsburg bureaucracy until early 19th century was Latin, so the professional bureaucrat was an educated person and committed to order and respect of formal law. This situation is atypical for the Byzantine bureaucracy, the predecessor of the Romanian state apparatus, which consisted of uneducated Ottomans and Phanariots committed to servitude and personal enrichment.

These historical conditions (Hussitism and the legacy of Habsburg bureaucracy) created a rich soil for the emergence of a Czech “culture of civil society.” As Dubcek (1991:137) notes, “Even before 1968, Czechoslovakia was increasingly unsettled as it compared itself with what might have been. Its internal capabilities, for instance, versus the way things had turned out.” That is why, the pressure for change came not only from the elites, “from above,” but from the masses, as well. Thus, rapid and radical social change became a necessity.

The reforms introduced by Dubcek in 1968 involved liberalization of Czechoslovakia's repressive political environment, overly centralized party bureaucracy, and highly regimented economy, and have later come to be known as the *Prague Spring*. The Soviet invasion in August 1968, unfortunately, ended the most promising possibility of an applied revision and correction of the Marxist doctrine.

While few were lucky enough to be granted the status of political refugee⁵, the majority of Party leadership was "literally kidnapped" (Pelikan 1976:36) and taken off to Moscow "like a bunch of convicts" (Dubcek 1991:138). Pelikan lucidly explains the arrest of the Czechoslovakian officials:

Dubcek and his colleagues were treated like prisoners of war, and raised to the status of "negotiators" only after the fiasco of Brezhnev's plan to enforce a "revolutionary workers and peasants' government" headed by Alois Indra. (1976:36)

Between 1968 and 1970, approximately 600,000 members were expelled from the Communist Party during the purges, as they either refused to sign an idiotic document called "The Lessons of the 1968 Events," "had their membership annulled" (Šik 1981:119) or

"...left of their free will after they had been repudiated its policy. They had been dismissed from their jobs and placed on a blacklist, making any attempt at reintegration virtually impossible. (Pelikan 1976:36)

The document was produced by a group of *apparatchiks* faithful to Gustav

⁵ For example, Ota Šik, Minister of Economy in 1968, requested residence in Switzerland, and Jiri Pelikan, the director of national television, fled to United Kingdom.

Husak (Dubcek's successor), to test the "loyalty" of the Communist Party members, and to restore the "Party discipline." The majority of the excluded Party members came from Bohemia and Moravia: 550,000, or 42 percent of the Bohemian-Moravian Party membership (Šik 1981:119). A significant number of those who were excluded would eventually tie with an active group of dissidents. Some would be among the 242 signatories of the first document of Charter 77 (Kusin 1978:309). Influenced by Jan Patočka's philosophical essays (himself a student of Edmund Husserl), people of extremely diverse orientations⁶ found ways to collaborate against a common enemy.

The initial signatories of Charter 77 included writers, academics, journalists, former Party functionaries, students, and blue-workers. Disavowing an interest in control of either the government or the economy, Charter 77 concentrated on petitions to official leaders to observe the strict legality in the treatment of individuals. The respect of civic and human rights was the basic doctrine of the Charter 77, which never transformed itself into a formal organization. The Charterists, unfortunately, scrupulously avoided such things as rules, statutes, or membership lists, so they were united only in a network of communication and artistic expression. Enormous symbolic power was concentrated in this nucleus of pro-democracy, which was represented to

⁶ Among the initial signatories were: Peter Uhl (Trotskyite), Vaclav Benda (conservative Catholic), Zdenek Mlynar (reformed Marxist), and Vaclav Havel (unaffiliated artist). Other notorious names of Charter 77 include: Pavel Landovsky, Ludvik Vaculik, Ladislav Hejdanek, and Jiri Dienstbier (who was appointed Foreign Minister after the 1989 elections).

Czechoslovak society by three spokespersons selected annually.

Inspired by Benda's 1978 essay called "The Parallel Polis" (Skilling 1991), the Charterists generally called for people not to participate in the official political system, and even to ignore it. The philosophy of the Charter 77 could be summarized as follows: The more people reject ideological lies and live independently of official structures and norms, and participate in secondary structures, the greater the erosion of state power (Havel 1985). Members of Charter 77 declared themselves open to "constructive dialogue" with the Communist authorities, which, in response, repeatedly arrested the spokespersons. The "apolitical focus" was, thus, impossible to maintain, and the initial human rights lobby group transformed itself into a body concerned with a rich spectrum of pressing societal issues.

Charter 77's social and political activism played a very important role in the demise of the Czechoslovakian Communist regime. Its members maintained alive the idea of a "civil society," and paved the way for a gentle transfer of power. After 1989, many of the Charterists were absorbed into the new political elites. As a negative consequence, Kaldor and Vejvoda (1997:76) write, the opportunities for enlarging the basis of the civil society were lost. On the other hand, due to the mushrooming of the organizations and institutions that were independent of the state in various degrees (political parties, trade unions, media channels, non-governmental organizations, etc.), an authentic balance of the state power was possible. As of today, numerous independent organizations

are focused on state abuses (like the denial of Czech citizenship for a significant part of the Roma minority) or are determined to lower the inherited level of politicization and clientelism within the administrative structures.

B. Romania. The history of Romanian cohabitation with the idea of “civil society” (including “the story of intellectual dissent”) is much shorter and “unimpressive” when compared to Czech one. As Shafir (1983:393-394) put it, the Romanian intellectual-political subculture was characterized by “nationalism, passivity, leftover imprints of corrupting Oriental mentalities and dissimulation.”

Of great relevance is the fact that, during the Communist interlude, with few notable exceptions, Romanian intellectuals were remarkably willing to comply with the authorities. This attitude of *homo contemplativus* (Russu in Shafir 1983:405) is uncharacteristic to the Czech people, as leaders of intellectual dissent holding various ideologies frequently rebelled. One can explain this dissimilarity in terms of the hypothesis that “historical experience may account for such behavioral differences” (Shafir 1983:403).

Whatever the explanation, the Czech and the Romanian intellectuals played different roles in their relationship with the Communist power, for, in any political regime, intellectuals form a redoubtable force for the legitimization or de-legitimization of power. Even the so-called “liberalization,” following Stalin's death, bore elements of guidance, as

...it was not initiated by intellectual pressure “from below,” but by the party's own initiative “from above.” Rather than initiating the process, the Romanian intellectuals respond to it; rather than winning concessions,

they were benignly awarded a very definite measure of increased freedom. (Shafir 1983:411)

In addition to the cowardice of Romanian intellectuals, Ceausescu's tyrannical regime virtually eliminated any form of opposition. In the 1960s, following the death of the Party leader Gheorghe Gheorghiu-Dej, a factional struggle developed between Ceausescu and the "old guard." He promoted the concept of "socialist humanism" (as opposed to Dej's "socialist realism"), and encouraged members of the intelligentsia to join the Central Committee of the Romanian Communist Party (Shafir 1983:411). However, after a strong current of criticisms and protests against the 1971 "Theses" of the "cultural revolution," a purge of intellectuals from membership in the Central Committee was initiated. This purge, which continued until 1989, can be seen as a preemptive elimination of reform Communists (like Dubcek in Czechoslovakia) or other "potential replacers" (like post-1989 Romanian President Ion Iliescu) of getting close to power. Nonetheless, there existed, though fairly recently, a possibility of Communist reformation of the system: in May 1989, six former high-ranking Party officials (Gheorghe Apostol, Alexandru Barladeanu, Corneliu Manescu, Constantin Parvulescu, Grigore Raceanu, and Silviu Brucan) sent a letter to the Romanian dictator, attacking his unsubstantiated policies, and accusing him of violating human rights agreements. The criticism was a major challenge to Ceausescu's leadership, the first organized form of protest, but it had little impact. When compared with the Czech experiment to give socialism "a human

face” (by Dubcek, in 1968), the Romanian attempt at reform not only could not be *implemented*, but also occurred significantly later (the time lag was of 21 years).

Romanians did not produce something comparable to Charter 77. The intellectual efforts of the so-called “onerists” (e.g., Dumitru Tepeneag and Virgil Tanase) and of Paul Goma, inspired by the Czech activists⁷, are notable (Shafir 1983:412, 418 and 420), despite the fact that the regime carefully looked out to minimize their social consequences. Throughout the entire reign of Ceausescu, intellectuals and workers protested altogether, but they lacked organization. Courageous and isolated recent dissidents (Mircea Dinescu, Lazslo Tokes, Doina Cornea, among others) resisted the Faustian temptation, extensively used their symbolic weaponry to attack the Communist dictatorship, and became the outcasts of the regime. An underground network intended to ease the circulation of an “illegal literature” was formed, in attempt to resist indoctrination. An apolitical cultural life was probably the most effective way to oppose the aberrations of proletcultism and the cult of personality.

The birth of Romanian civil society occurred as late in time as November 1990. The group named “Civic Alliance” was then formed. It hopefully inherited dissidents’ moral and symbolic capital, as the most famous anti-Communism

⁷ Writes Shafir (1983:417): “ In a letter of support addressed to the signatories of ‘Charter 77,’ Goma wrote: ‘We Romanians live under Romanian occupation – ultimately more painful, more efficient than a foreign occupation.’ ”

protesters were among the founders. The basic principle of this movement resided in the activation of citizenry, and its moving force was civic consciousness. However, *apparatchiks'* post-1989 interlude, as well as the inherited barriers, limited the range of action.

The outcome of the November 1996 elections should be seen as a sign for the revival of a sense of morality and civility, since the task of constructing a democratic system was transferred from a state dominated by former Communists to society. In today's Romania, popular participation is a goal that has not been achieved, yet non-governmental associations are not as abundant and influential as they should be for a functioning civil society.

Romanians have yet to learn to adhere to the rule of law and respect for civil society and individual rights. Brucan (1993:191) estimated that Romanians would need two decades to learn practicing democracy. Moreover (and few would disagree with it), Romania lost its *momentum*; consequently, its whole context of democratization is less attractive than the Czech one. Civil society is a crucial aspect of substantive democracy, for the exercise of power can be monitored. If delayed, as Schopflin (1991) puts it, it only increases the already immense social costs of transition:

[T]he definition of civil society was easier and clearer while it could measure itself against totalizing power: once the power had disappeared, the process became increasingly more complex. Thus, societies which in some cases have only weak or even no transitions of civil society must now undergo the painful process of identifying and reidentifying interests. (P.24)

3.3. A *Sui-Generis* Model of Democratization?

In terms of civil society, an essential feature of a politically mature system, The Czech Republic and Romania travel down on two different roads. During the 1970s and 1980s, the Czech Republic (as part of Czechoslovakia) experienced the birth of civil society, which has actively grown since. In Romania, on the other hand, one-party and, later, one-person rule was largely untarnished by dissidents, opposition, or liberal movement outbursts. Because the initiation of the civil society occurred much later in time (1990s), it seems plausible to consider that Romanian civil society has not passed its “childhood period.”

The transition from authoritarian rule has been conceptualized in various ways, each with an intrinsic heuristic value. Lijphart (1991), for example, introduced a distinction between a ‘majority-rule’ type of democracy, and a ‘consensus’ democracy type. In the first instance, political power is concentrated in the hands of the elected majority. Civil society is barely articulated, and citizens’ motivation to get involved in public life is minimal. In the second instance, there exists a consensus based on division, dispersion, and limiting power in various ways (I shall name this process *socialization of power*). Romania’s context best describes the first type, that of an incipient phase of democracy. The Czech Republic, on the other hand, has successfully advanced to a consensual democracy, creator of a high level of civility.

Schmitter (in Mason 1992:115) described the transition from authoritarian rule to democracy in terms of a process composed of five extended and

overlapping stages: a) persistence of authoritarian rule; b) demise of authoritarian rule; c) transition to democracy; d) consolidation of democracy; e) persistence of democracy. His paradigm is completed by “indicators of termination” of authoritarianism, “indicators of initiation” of democracy, and “processes” in the consolidation of democracy. Applied to the cases of Romania and the Czech Republic, as one might observe, the latter has advanced to the fourth stage (consolidation of democracy), while the former has not.

Of practical utility is also the distinction between “strong society” and “weak society” (Ramet 1995:20). A strong society is capable of defending itself from state’s tyranny, and can counterbalance and check the abuses of those in power. By contrast, a weak society, as is the case with Romania, lacks the capacity of self-defense.

A strong government and a weak society are characteristics of political conservatism. Ramet (1995:20) pointed out that this combination is most likely to lead to the occurrence of authoritarian regimes. A weak government and a weak civil society are typical of traditional states. The combination of strong (but not authoritarian) government with strong society is the pattern of pluralist democracies. A weak government and a strong society, finally, is conducive to anarchy.

Certainly, “strong society” and “weak society” are ideal types, extremes of a continuum. From this perspective, the Czech Republic appears to be closer to the ideal of a “strong society.” By contrast, Romania displays a chronic

weakness of its civil society institutions. Partially responsible for this situation is the existence of a “captive mind” or “submissive mentality” (Gallagher 1995:231), remnant of a tragic past. Crediting the state with too much power is the cause of enlarging the gulf between government and society. The climate of frenetic competition has created a sense of social egoism. Mutual suspicion and sensitivity to societal issues replaced the initial fervor, as well as the capacity for dialog.

Due to these features and many others (absence of a democratic culture, lack of mutual trust among the citizens, low level of trust in leadership and basic institutions), Romania can serve as an example of “unbalanced” or “truncated” society (Matejko 1992). The liberation from “truncation” is difficult to obtain as long as *Manicheanism* is such a popular philosophy. People do not resign easily from previous advantages. This is why the practice of engaging in corrupt acts or making use of state privileges is so well fixed in public consciousness, especially when institutional reconstruction is slowed down by a variety of circumstances.

However, in both Romania and the Czech Republic, the post-Communist transition has not run the full course to democracy. Elements of civil society are emerging in both countries, though in different timings. Journals and foundations, secular and religious organizations, small enterprises and political parties made their debut earlier in the Czech Republic than in Romania. This tendency can be explained in terms of Communist legacy (the pervasiveness of the state, totalitarianism’s tradition of passivity, and distrust of the public

sphere). At the same time, such a tendency explains the proliferation of corrupt practices (e.g., bribery, clientelism, favoritism, robbing the state, and private arrangements as the primary method of “fixing” things).

Post-Communist regimes have certain advantages over previous democratizing governments. As Dahl (1971) pointed out, democratizing countries have models of democracy and ways of implementing democratization. Their political elites can rely on a universal culture of democracy. However, a path of democratization cannot and should not be copied *ad literam* from one country to another, as socio-historical contexts vary substantially both in space and timing. The prospects of democracy in the region will depend on the development of a vibrant civil society, and on the capacity to create patterns of social interaction based on bonds of trust and cooperation, features which are essential for the emergence of a culture of pluralism.

In this chapter I have tried to suggest that a democratic culture, together with the associations of civil society are important elements in the equation of corruption. Checks and balances provided by the institutions of civil society can lead to political activation, bureaucratic decentralization, reformation of the state, and a redefinition of the public servant's sphere of authority. An active civil society is able to impose limits on government officials' range of action, and thus, can lower the possibilities to commit abuses. Still, one must admit the possibility that many institutions of civil society (like the press, trade unions, universities, various foundations, etc.) might not be autonomous, but deeply

dependent on the amount resources allocated by the state. Thus, one should not see the organizations of civil society as completely immune to corrupt practices.

The Czech political arena seems to have a higher degree of transparency and accountability than its Romanian counterpart (see Appendix for a comparison between corruption indexes). Also, the Czech Republic is the only one in East-Central Europe that did not see the return of the Communists. Pressured by the long tradition of the "culture of civil society," the new Czech elite has instilled a moral vision on politics, which is unanimously regarded by the population as the *just* way to think, act, and exist. By contrast, until 1996 former *apparatchiks* won the general elections in Romania. Thereby, they succeeded to preserve their positions and to pursue their interests by maintaining a previously formed net.

Corruption can be lowered by reducing the monopoly power of officials within an existing political system. Outside checks have the role of ensuring that no one group or individual gathers too much power or uses it arbitrarily, and that the exercise of invested power is constrained. A real separation of power can counterbalance the state, and can provide effective checks on the executive, legislative, and judiciary. The very size and scope of governments (LaPalombara 1994:13-4) can generate a wide range of opportunities for corruption. Following the same logic, big governments need bigger bureaucratic apparatuses, vast organizations that are hard to manage and control.

The filling of the official positions by the Charter 77 activists signified a

strong commitment to the democratic principles and to the restoration of the rule of law, as an independent and competent judiciary is a necessary check on executive and legislative powers. In Romania, unfortunately, the judiciary, a real bastion of *nomenklatura*, is the most corrupt branch of power. Thus, the criticism of active civil groups (like the “Group for Social Dialogue”) or the investigative journalism of the “free press” are hardly accompanied by adequate responses coming from state agencies or prosecutions.

To sum up, the Czech political context is less inviting to corruption than the Romanian one. In the Czech Republic, the associations of civil society are much more influential and “in place” than in Romania. Moreover, the separation of powers seems to be less clear in the latter than in the former. Nevertheless, political context is not the only factor affecting the level of corruption in post-Communist countries, as societal transition implies an economic dimension, as well. As will be addressed in the next section, the unprecedented change of the nature of economy from plan to a market is a *political* process that is fraught with numerous obstacles, and in which opportunities for corruption abound.

CHAPTER FOUR

ECONOMIC DETERMINANTS OF TRANSITION

4.1. *Privatization: A Panacea of Economic Transition*

A successful transition involves not only a radical transformation of the political system, but also of the economy. The abundant literature describing the transition from authoritarianism to democracy has limited usefulness in assisting the transition from a centrally planned economy to a free market. After all, how can a free market economy be created in a short time, when in the past such a system emerged and developed over many decades and even centuries?

There are at least three categories of policy change required, when attempting to move from a command to a market economy: (1) macroeconomic stabilization; (2) economic liberalization; (3) privatization. The impact of each category depends on whether other economic reforms are being pursued.

Macroeconomic stabilization, the first step, is designed to eliminate the excess demand, which was the predominant shortcoming of the Soviet-type model of economic order. It involves a combination of fiscal austerity aimed at curbing excessive monetary supply, tightening the credits, and the establishing of a stable, internally convertible currency.

The second step, economic liberalization, intended to be undertaken concurrently with the first, is designed, by freeing up prices, eliminating subsidies, removing import restrictions and encouraging the establishment of

private commercial ventures, to introduce a free market in as many sectors of the economy as possible. Following the classic monetarist tradition, such measures are necessary because a sound economy and competitive markets represent the pillars of economic prosperity. The initial effect of economic liberalization, predictably, following the classic monetarist approach, would consist of an immediate jump in retail prices, a rapid elimination of consumer goods shortages, a fall of the economic output, a decrease in the rate of consumption, and standard of living. The introduction of stabilization packages are vital, as adjustment of the prices would lead to hyperinflation (or, better, "hyperdeflation"). Macroeconomic stabilization is also a precondition of privatization, the third category of policy change from a planned economy to a free market. Having considered these aspects, it is clear that steps toward economic transformation cannot be taken all at once, if only because the magnitude of the task is overwhelming, raising questions about both sequence and pace.

Privatization is a pivotal component in the economic recovery plans (Sirbu 1995:493). In theory, privatization is not essential to the transition from a socialist to a market economy, for liberalization of markets, coupled with a hard budget constraints can possibly lead to similar results. In practice, however, these approaches have failed to work out properly, primarily because governments have been unable or unwilling to honor market-oriented arrangements, or to separate political from economic decisions. Without

privatization, the transition economies have no real hope of climbing out the bankruptcy into which they had been placed by central planners, with their inefficient allocation of resources. That is why scholars (e.g., Stark 1990) believe that only owners with firmly established property rights, who face hard budget constraints on a competitive market are willing to make the required investments to improve their firms' efficiency.

As it is commonly accepted, privatization comprises two tasks, each with its own difficulties: selling most of the industrial enterprises in the state sector, and transferring state agricultural land to the private sector. The specific nature of privatization as a tool of eliminating major systemic dysfunctions inherited from the Communist system consists in the fact that, unlike other societal subsystems, change in ownership is in terms of time and logistics, a challenging and delicate process. Thus, according to Janusz Lewandowski, Poland's former Minister of Property Transformation (in Verdery 1996:210), "[p]rivatization is when someone who doesn't know who the real owner is and doesn't know what it's really worth sells something to someone who doesn't have any money."

Indeed, in privatizing the state sector, a number of difficulties have to be resolved. In an economy where prices and ownership have been distorted for decades, it is not immediately clear what prices to charge for state property: the market value, an auction price, or the price set by Western economists? The socialist economy was not run according to market-based principles of valuation and profitability, and so, it is almost impossible to assess the book value for the

state-owned enterprises.

Also, much controversy has centered on the method of privatization: piecemeal or mass? Should shares be distributed to all citizens, or to just workers at the enterprise, or by selling shares to appropriate bidders? There have also been concerns that unregulated privatization could allow foreigners to buy up much of the economy at a devalued price.

A major obstacle to privatization process comes from the difficulty to answer the question of who actually owns certain state enterprises, agricultural farms, and land properties? In some countries, where the workers' self-management conferred rights to the employees, workers argued that the firms belonged to them or, at least, that the state should transfer formal ownership to them. In the case of enterprises that existed before the end of the Second World War, controversies also have arisen as to whether the appropriate strategy would consist in returning such properties to the original owners or their offsprings, regardless of their current country of residence and citizenship. An even larger problem was: Who would buy large state enterprises? After all, only a small part of them could be made profitable, not mentioning the dearth of private capital within post-Communist countries and the underdeveloped financial markets. Widespread state monopoly may raise questions about which firms or enterprises should be sold in the early stages of the process, and which saved for a time when the market has taken root more firmly.

There seems to exist two basic models for privatization of large state

enterprises in post-Communist economies (Stark 1990). The first model is one of piecemeal actions: waiting for groups with sufficient funds to arise, constructing *ad-hoc* lease-purchase agreements, even selling properties to auctions having only one bidder. This approach to privatization is signified by a patience that sometimes exceeds the tolerance threshold. The need to wait arises from the meticulous search for a variety of arrangements for privatization: sometimes formal and sometimes informal, but most often a combination of the two. The second model, mass privatization, stresses the need for speed. Under the umbrella of mass privatization, a large number of small, local privatizations are carried out simultaneously through alternative methods. Privatization on a mass scale has not been accomplished before, so this method requires the creation of wholly new procedures and institutions specific to the context of each country. Also, there are no close models from other countries, as possible sources of inspiration.

We can observe, then, that the transformation of post-Communist countries from centrally planned economies to market oriented systems is being fraught with obstacles. Everyday examples confirm the idea that the path from socialism to free market has proven much more difficult than the transition from nascent capitalism to a command economy. The pressure to initiate market reforms quickly, and to sell off state assets in a rapid manner created a free-for-all atmosphere, given the temporary collapse of the socialist state power.

The ambiguity of relations makes the privatization process a hotbed for

corruption. State enterprises did not practice a rigorous accounting and valuation of assets. This difficulty of determining the market value of state assets created a margin that can be easily filled out by bribes. Even if governments engage in a competitive bidding process for the sale of its assets, bids are often confidential, and the decision is usually taken by an individual (minister or high-level official).

In Chapter Two I have argued that a direct relationship between corruption and economic development cannot be established with clarity. That is why, corruption should not be denounced as an obstacle against economic prosperity, although there exist some corrosive effects in this sense. I foresee, however, an association between the economic context and corrupt practices: Corruption may be linked to the main strategy employed in the privatization of state assets.

Romania and the Czech Republic opted for a different pace of the overall economic reform, as well as for different methods of privatization: Romania followed a more gradual path, while the Czech Republic has successfully pursued a path of rapid economic transformation called "shock therapy."⁸ The advantage of the step-by-step approach is that it allows time for the economy and the population to adjust to each successive change, and it minimizes large-scale social dislocations. However, a major critique comes from the prolongation

⁸ Term popularized by Harvard University Professor Jeffrey Sachs (Celanier 1997)

of population's pain, as well as from the complication of the transition process through the offer of protective shelter for both economic centralization and incipient market mechanisms. This is why, speedy economic reforms are always preferable if sustained by adequate political reformation, and by an attitude condemning corrupt practices. All the components of economic transformation (macroeconomic stabilization, price rationalization, and the transfer of state property) are intertwined. A process cannot take place independently of the others, and so, they all share the same characteristics in terms of pace. Thus, an analysis of the privatization process can provide insights regarding the speed of the overall economic reform. While acknowledging that the sum cannot be reduced to one of its parts, I advance the idea that an analysis of the privatization process can provide valuable insights regarding the speed and the transparency of the overall economic reform.

For the purposes of this analysis, firms will be considered private if they are less than 50 percent state owned. For the purposes of this study, the indicators that will be used to compare Romania to the Czech Republic are: (1) the preferred method of privatization, and (2) the private sector output as a share of the Gross Domestic Product (see Table 2).

Table 2
Private Sector Output as a Share of the Gross Domestic Product

<i>Country</i>	<i>1990</i>	<i>1995</i>	<i>mid-1997*</i>
Czech Republic	5%	70%	75%
Romania	15%	38%	55%

Source: (*World Development Report 1996*. New York: Oxford University Press, 1996, p. 15.)

*Source: (*1997 Report*, Goldberger and Associates, Inc.)

The preferred method of privatization is directly related to the pace of reform, the transparency of transfers and access to information, and the degree of administrative discretion (Kaufmann and Siegelbaum 1996:430-1). The corruption differences between the two tactics, *Management-Employee Buyouts* (the preferred method in Romania until 1995) and *Voucher-Based Mass Privatization* (the favored strategy of the Czech Republic) are summarized in Table 3.

Table 3
Corruption Potential in Two Privatization Methods*

<i>Method</i>	<i>Indicators of Privatization</i>		
	<i>Timing</i>	<i>Transparency and Access to Information</i>	<i>Administrative Discretion</i>
Voucher-Based Mass Privatization	--	--	--
Management-Employee Buyout Privatization	+	++	++

* Note: "-" and "--" equal low and very low corruption potential, respectively.
 "+" and "++" equal high and very high corruption potential, respectively.

Source: (Compiled from Daniel Kaufmann and Paul Siegelbaum, "Privatization in Transition Economies," *Journal of International Affairs*, 1996, Vol. 50, p. 434).

An important lesson to be learned from the boom of corruption in the midst of selling off state assets is that privatization at any cost is not a sufficient end in itself. Privatization's most important benefit is not a new set of laws, which are imperfect, however conceived, but a complete resocialization of economic actors, both private and state-owned. The idea that companies should be taken out of state protectionism, regardless of whose hands they fall into and how much is skimmed off in the process, is an erroneous one, as it will be showed in the next section. While privatization is nurtured by the belief that private enterprises are more efficient than state-controlled monopolies, it should be

clear for everybody that a free market, without the restraining rules of a civil society, inevitably creates opportunities for a great number of abuses.

4.2 Partisan Interests Behind Transition: Kleptokratura and Spontaneous Privatization.

Spontaneous privatization is often defined in terms of illicit or at least improper gains (transfer of assets by stealth) by managers of the enterprises and/or high Party officials throughout the entire period that elapses between the fall of the Communist regime and the privatization of state's enterprise or other assets. Defined as such, this "illicit" spontaneous privatization is different from the "transparent spontaneous privatization" (Campeanu 1993:364-6), and can be approached using a variety of aspects: direction, participating agents, privatized means, and the type of relationship between the agents. In every East-Central European country, the volume of assets privatized through the "rape of state" by former *apparatchiks* cannot be accurately determined, although the common perception is that is enormous.

Spontaneous privatization takes place informally, in most instances, through the blatant theft of state assets and diversion of revenues from state enterprises. For this reason, spontaneous privatization represents the very essence of extra-legal activities, a continuation of the corrupt practices that flourished under Communism. Personal enrichment among Party ranks was not an uncommon practice, as they managed public wealth.

During Communism, due to continuous ideological pressures to produce more and more (often, an illogical demand), corruption within high-level strata flourished. Managers and bureaucrats in unison misrepresented data and reported false results, as a way to “accomplish” the planned production. This chain of lies and corruption, stretching from high-level *apparatchiks*, responsible for making bureaucratic appointments, to low-level civil service employees, should be seen in the larger context of secondary economy. Informal economic relations, in this context, were nothing more than functional substitutes in a dysfunctional system. Because of the shortages of goods, a lot of extra-legal activity went on. Such activities were endemic to all planned economies (Verdery 1996:22). Virtually everyone had a “connection” with the secondary arrangements. Some of the parallel forms of material earnings were direct consequences of scavenging the public wealth.

The Communist system demanded innumerable daily compromises, tacitly allowed by a paternalistic regime. Thus, it is no wonder how and why the practice of offering and receiving gifts (small bribes) became a habitual custom. The most prominent practitioners of bribes and other corrupt practices were Party ranks. Their simultaneous actions of enforcing and breaking the system of rules substantially influenced the level and the distribution of favoritisms.

State enterprises were linked to each other due to their subordination to the Party-state. Their managers frequently had to befriend those higher up in order to procure raw materials or other supplies, a practice so popular that it led

to the development of a “network of cozy relations among economic managers and their bureaucrats” (Verdery 1996:22). When the road leading to these “guardian angels” was too sinuous, it was not uncommon to seek access to the most influential members of *nomenklatura* by making use of “smiles, bribes, favors” (Verdery 1996:22). Thus, the positions within the hierarchy of the Party-State were sources of power and wealth.

The reformation of society initiated after the downfall of Communism could not put a ban on corruption. At the time of the change of regime, it was believed that corruption would no longer pose a problem since the reasons (e.g., the imbalances of the centrally planned system and the fusion of the Party with the State) for it would have ceased to exist. Unfortunately, this expectation proved to be wrong.

The failure of people to rationalize the coordinates of the new environment and to adapt to the new situation is no surprise for an alert mind. Besides the “formal-informal economy” polarity, at least another dichotomy was inherited -- the split personality. Under Communism, an individual could act against his/her own will and desire because of various considerations: conformity, fear, mistrust, indecision. On these coordinates, Jean Stoetzel (in Ellul 1973:280) advanced the idea that an individual can have two opinions on the same matter:

a) her/his private opinion that s/he keeps for herself/himself, and which is disclosed only in the company of a selected and limited number of people;

b) the opinion shared with others because of social pressures, panic anxiety, and conformism.

The duality of social *persona* explains why an individual could act in total contradiction with his/her personal opinion.

As a manifestation of the self-maximization principle, the “new” corruption is institutionalized in a “culture of transition,” which serves to perpetuate the interests of the *nouveau riche* stratum (resembling very much Djilas’ (1967) portrayal of the “new class). At the start of the post-Communist reform, the younger, more pragmatically minded members of the outgoing Communist administration sought the transformation of political losses at the demise of the old regime into economic gains through the transfer of state property into private ownership, by making use of their privileged positions and knowledge of the inside arrangements. Not surprisingly, many of the new entrepreneurs are members of the Communist *nomenklatura* (now, *entrepratchiks*), with a long experience of suppliers in the secondary economy.

A variety of terms including *directokratura*, *kleptokratura* (Frydman, Murphy, and Rapaczynski 1996), “bureaucratic” caste (Szelenyi and Szelenyi 1997:855) are used to describe these bastions of Communist power. The former *apparatchiks* are generally perceived as the winners from the transition, because they have (successfully) transformed public assets into private property with the help of their acolytes from the bureaucratic administration (themselves former Communists). Both politically and economically, the *entrepratchiks*, entered the

transition period as the strongest organized group, aspect that enabled them to circumvent existing legal framework, and to achieve their goals 'invisibly.' This headstart advantage was true even in the case of the Czech Republic, where the disqualification of former Communists very radical (Sajo 1998:40). Under the new system, members of the *nomenklatura* gained titles to the assets controlled during Communism. By making them into important owners of capital, spontaneous privatization allowed *entrepratchiks* to preserve their hold on economic resources while also giving them a freedom unimaginable during the old regime.

In order to accomplish their distinctive economic interests, some *entrepratchiks* turned to the political arena, and so, being thus able to influence the political resources of the system, and to exert pressures on political outcomes (like opposing rapid reforms and enterprise restructuring). The "closet" Communists, chameleons turned into "respectable" businessmen, are not interested in serious economic and administrative reforms, because they profit handsomely from plundering the state. If not stopped, they promise to finish devouring the remained state assets, while effortlessly working to impede the pace, embezzle the scope, and blur the transparency of privatization.

Engaged in a "race" for market domination, *entrepratchiks* continuously seek the development of alliances. The horizontal (local) relations are cultivated and preferred to the vertical ones, since the conquering of local markets are sought in the first stage. Moreover, the cultivation of horizontal relations is a

necessary condition to get access to the vertical ones (for example, via a local senator who is a member of a closed circle of “friends” sharing a common Communist past. As Verdery (1996:218) expresses it, “[entrepratchiks’] most capitalizable asset to start with was, precisely, their personal positions and the personal connections.

To be sure, this scenario varies from one country to another. In the Czech Republic, *nomenklatura* managers have not been particularly successful in retaining control of the enterprises. They have been more successful in holding onto power, though not in gaining ownership, in the banking industry. In Romania, by comparison, members of the *nomenklatura* have been extremely successful at converting their political domination into economic might. This theft on a grand scale was possible because the Communist elite maintained its hold on state beyond the collapse of the regime that brought them to power for (for seven years).

If my estimation is correct, approximately 75 percent of the Romanian *nouveaux riches* were members of the *nomenklatura*, or of the secret police. Many had been in the arms industry and have since built their fortunes on arms trading. Take as an example the case of Victor Athanasie Stanculescu, onetime head of the military headquarters during Ceausescu, who is now the owner of Romania’s leading arms-export firms, former state companies that were never publicly put up for sale.

Anyway, to damn privatization because it has been partially hijacked by

Communists would be a mistake. At best, spontaneous privatization has to come to an end, while sustaining broad-scale privatization through efficient measures. As long as the members of the *nomenklatura* remain powerful players on the business scene (as is the case in Romania), their presence can have potentially serious consequences. Habits of the past will certainly continue; yet, for economic as much as political reasons, a prospective successful transition requires that many of the old guard make room for the next generation of business leaders.

4.3. The Sinuosities of the Romanian Road to Capitalism

The regime change in Eastern and Central Europe has raised complex questions regarding the relationship between the public and the private sectors of the economy and society. In economic terms, Romania's transition has been particularly difficult. Today, despair and uncertainty make many people believe that the momentum for systemic reform was delayed.

The process of reforming the Romanian economy should be seen in conjunction with the legal framework that regulates the privatization process. Such an approach facilitates the introduction of an operational periodicization of the Romanian privatization, corresponding to the passing of the seminal Law No. 55/1995. Also known as the Law Regarding the Acceleration of the Privatization Process, this piece of legislation marks the application of mass privatization projects (though mismanaged and ineptly administered) into practice.

The decision to introduce market forces and private enterprise came as early as February 1990, when private business with up to 20 employees was allowed to function. Romania could not enjoy a pre-reform period (Frydman, Rapaczynski and Earle 1993:210). In this context, it is worth noting that, under the Communist rule, Romania had the most centralized economy in Eastern Europe until December 1989 (Popescu-Birlan 1994:376; Frydman, Rapaczynski and Earle 1993:220). The introduction of such a liberal measure became a necessity.

In July 1990, Law No. 15/1990 Concerning the Reorganization of State-Owned Enterprises into Commercial Companies or *Regies Autonomes* was approved. Law No. 15/1990 also created the National Agency for Privatization, and outlined the “30 percent transfer” or free distribution program (Frydman, Rapaczynski and Earle 1993:239). Moreover, this piece of legislation also provided the framework for the creation of five so-called “Private Ownership Funds” (POFs) and one “State Ownership Fund” (SOF), and which, together with the National Agency for Privatization (NAP) would share the responsibilities for privatization. Under the Law No. 15/1990, 6445 state enterprises were transferred into commercial companies until the end of 1991 (Sirbu 1995:494).

These liberal measures explain in part Romania’s relative advantage over the Czech Republic at the end of 1990, with 15 percent private sector output as a share of the Gross Domestic Product, as compared to five percent (see Table 2). At that time, under popular pressures, Romanian authorities opted for a free

economic system, on the assumption that centralized economic structures could not coexist with a free market. With the monetary mechanisms insufficiently developed, an increase in prices occurred. This crisis was further nourished by social unrests and by insufficient quantities of supplies.

In August 1991, Law No. 58/1991 Regarding Privatization of the Commercial Companies was promulgated. This piece of legislation specified the tasks of SOF and POFs in greater detail than Law No. 15/1990. For example, SOF became the administrator of 70% of the state capital. In addition, approximately 30 percent of the state capital (allocated by the NAP) was designed to be freely distributed to all adult Romanian citizens. Consequently, five POFs named after five great regions of the country.

In December 1992, the process of mass privatization was impelled when the Government decided to privatize some 1,100 small enterprises, 100 medium-sized firms, and 4 large one during the course of 1993 (Popescu Birlan 1994). However, the private sector's contribution to the Gross Domestic Product was of only 30 percent in 1993 (Sirbu 1995:475). At the beginning of 1994, only 150 state companies changed the nature of their ownership (Popescu-Birlan 1994). The plan for 1994 was even more ambitious: to privatize 2,368 companies (Sirbu 1995:497). However, by the end of 1995, the private sector output as a share of the Gross Domestic Product increased by only 2.5 times as compared to 1990 (see Table 2). As Popescu-Birlan (1994:376) expresses this situation, "Romania has had [one of] the poorest results in the privatization field of all the former

Eastern European satellites of the Soviet Union.”

Much opposition to broadly-based privatization came from the managers of economic enterprises (many of whom had been appointed during the Communist regime), because they would lose not only their jobs and personal comfort, but also their social position. Delayed privatization allowed *entrepratchiks* to develop their own businesses, as they gained greatly from rent seeking. In a slow or delayed reform, the transfer of resources occurs through cheap credits, a practice that directly influences the development of inflation. Another important source of rents appears to be the arbitrage of foreign trade (which is made possible through price controls, like sudden increases, the existence of multiple exchange rates, and foreign trade controls). The result, then, is twofold: (1) it increases the benefits of a limited number of people, and (2) it impoverishes the public property and every taxpayer.

The cycle of corruption-rife privatization runs as follows: Former party ranks, while continuing to hold key-positions, transferred funds and goods from state-owned enterprises to their privately-owned companies. The easiest and most profitable way to do this is through the formation of affiliated limited companies. Numerous examples of state-owned companies whose managers succeeded in setting up their business by transferring funds from state enterprises to privately-owned firms exist (e.g., AGMUS Iasi, and IASITEX, both from Iasi, author's native town). The *entrepratchiks*, by virtue of occupying managerial positions, constantly bribed departmental directors, ministers, or

members of the Parliament to have reservations on a quick liberalization of the economic sector. In this manner, the state kept on subsidizing unprofitable (or even bankrupt) enterprises. This financial loss may be seen as important source of inflationary prices.

Bribery, then, started at the lowest levels of the state and continued right up to the hierarchy. Romanian business sector is both over- and under-regulated, as a result of this network of corrupt practices: over-regulated in the number of stamps and approvals (read: sources of bribes) required for every franchise, and under-regulated in the lack of protection for consumer or honest firms. The chain of bribery and theft provides a partial explanation for *kleptokratura's* preference for a state-directed economy, and for its reluctance to speed up the privatization process. Concerned with the social consequences of privatization (in particular, price increases and unemployment), the Romanian elite opted for a gradual reform. Although Law No. 58/1991 allowed the application of a variety of methods in order to change the nature of ownership (Earle and Telegdy 1998:2) the *Management-Employee Buyouts* (MEBO) strategy prevailed as the main method of privatizing state assets between 1992-1995 (Earle and Telegdy 1998:3; Enea 1997:1). MEBOs were also the first and most successful transfers of state assets (Earle and Telegdy 1998:3). The "artisans" of privatization designed programs in which medium-sized enterprises and small establishments (retail outlets, restaurants, bookstores, hotels, etc.) would be sold or given away to insiders, often with payment accepted in the form

of vouchers or deferred payment arrangements, in order to solve the problem of a lack of capital in the purchasers. The employees of these enterprises and establishments enjoyed a preferential treatment over the foreign investors, reflecting the fear that domestic companies would be purchased for undervalued prices, and that jobs would be eliminated and wages cut.

The MEBOs occurred at a snail speed, they lacked transparency, and left discretionary power to high level officials. In most circumstances, this method of privatization contains all of the factors potentially conducive to high levels of corruption (see Table 3), because it is slow and highly dependent on officials' discretion. In addition, there is little public information about the context of privatization or the terms of the transfer. Regardless its flaws, MEBOs represented a step forward from the situation when the state owned 70 percent of enterprises' capital (through SOF).

There is thus evidence that the timing and intensity of reform is determined by the position of the former Communist elite after the fall of Ceausescu. The government controlled by the old guard tacitly allowed the transfer of large amounts of wealth to themselves and their acolytes. Delayed or slow reforms facilitated the private acquisition of economic resources. Yet, by 1994-1995, as these transfers have declined, and *kleptokratura* has acquired substantial wealth, the overall resistance to reform has weakened.

Law No. 55/1995 was introduced in an effort intended to accelerate the process of mass privatization. A new set of privatization vouchers was issued,

for another “free” distribution of the allocated 30 percent from the total state capital to be privatized. Law No. 55/1995 guaranteed that every participant in the mass privatization program would get stakes at the desired company. By law, approximately 17 million Romanian citizens became shareholders in 4,000 enterprises included in the “new” list of the mass privatization program. At the end of 1997, SOF has succeeded to privatize 3,862 enterprises, out of a total number of 8,761 (Enea 1997:1), which account for 55 percent of the Gross Domestic Product (see Table 2).

Despite the fortunate outcome of the November 1996 elections, Romania remains a risky economic territory. Foreign investors are not ready to pay too much for the offered assets, despite the reforms introduced by the anti-Communist government to break the power of the former elite, to eliminate subsidy-seeking behavior, and to organize transparent bids.

To break up the state monopoly in the economy is not a smooth and easy process. As I have tried to suggest, economic, social, and financial pressures favored the preference of the leadership for a policy of slow privatization from 1990 until 1995, whose pace strongly stimulated corruption and generated discrepancy in the distribution of the inherited public property or wealth. Because of the unfinished process of privatizing large sectors of the economy, Romania stands as an example of how corruption is on its way of becoming a national institution that exists, in fragments and parts, in every social, political, or economic institution. In most cases, the rights to engage in such activities are

ranked and delineated within informal arrangements. In Romania, corruption is an alternate mode of existence, nourished by *entrepratchiks'* establishment, which dominates the public life.

4.4. *Shock Therapy -- The Czech Strategy from Marx to Market*

In Czechoslovakia (and the Czech Republic, later), decisions about the methods and procedures of economic transformation were taken in the first half of 1991, when the idea of pursuing a radical reform prevailed. The motivation for such an action also came from the unpleasant reality that, by the end of 1990, the overwhelming majority of industries continued to be state-owned (Table 2 indicates that, in 1990, the private sector output constituted only five percent of the national Gross Domestic Product). A radical reform of the industrial sector would diminish or even eliminate state enterprises' dysfunctionality and incapacity to adjust to market mechanisms. This necessity was complemented by the undisputed truth that state enterprises represented solid avant-posts of the *nomenklatura*.

The concept of radical reform was endorsed in the free elections held in June 1990, and found its specific shape in the paper entitled "Scenario of the Economic Reform," which was approved by the Federal Parliament in September 1990. According to the scenario, the Czechoslovak economic transformation had to include liberalization of prices, macroeconomic stabilization, and rapid change in the nature of ownership. Beginning with January 1991, former Prime Minister

Vaclav Klaus and his government took major steps to accelerate the desocialization of the economy. Price controls on most goods sold were removed, inefficient state-owned enterprises were closed, and subsidies eliminated, wages were frozen, and interest rates raised, and thousand of shops were privatized. However, an important aspect of this “shock therapy” or “cold turkey” approach had yet to be initiated.

The authors of the economic transformation fully realized from the very beginning the daunting nature of swift and mass privatization, as well as the fact that it was absolutely necessary to proceed with it. Several economic strategies were considered, some with limited success. Thus, the Czechoslovakian government tried some imaginative ways to facilitate privatization in its capital-starved society. It began auctioning off state-run stores to the higher bidders, who paid much less than market value for what they were buying. The citizens were angry that those among them who had the money to take advantage of the auctions were ex-Communist officials; they were also concerned of their neighbors, Germans and Austrians, coming into their country to take advantage of the cheap prices.

Thus, Czechoslovak economists and political leaders, familiar with traditional privatization techniques, such as direct sales or public tenders, concluded that such methods were not applicable on a large scale in the particular context of Czechoslovakia. Standard or traditional methods were not completely ignored, but they were used only marginally. In addition to these, a

non-standard procedure, the voucher scheme, was proposed. The results of this strategy, seven years later and five years after the formal split of Czechoslovakia (January 1, 1993), stand for its success: approximately 70 percent of Czech state enterprise assets have been transferred to the private sector (Jezek 1997:488).

The *Voucher Based Mass Privatization* scheme became the centerpiece of Czechoslovakia's privatization objective, and represents a major innovation in the process of ownership change. At the same time, this strategy is an exemplary case of evaluating assets directly by the market. The free, unrestricted distribution of vouchers was intended to spread around the public wealth. The mass distribution of state property is not only efficient because it advances the goal of private ownership, but also particularly effective because it co-opts the majority of the population into the process of economic transformation. The vouchers could be traded in privatized enterprises, transforming every Czech adult, almost instantly, into a *bourgeois* with vested interests in the success of the reform.

The free distribution of state assets occurred into two massive waves. In the first wave, the list with the enterprises to be privatized contained some 2,700 companies. In the second wave, additionally, 2,000 companies were to be privatized (Jezek 1997:484). Each Czech citizen over eighteen years of age received vouchers equal to 1,000 investment points, which allowed the purchasing of shares in up to 10 companies. They could do this either through

one of the many investment funds set up by banks, or could bid directly for the shares of large state enterprises in public auctions (Berg and Berg 1997:381).

In the first wave, 946 companies worth \$3.5 billion were privatized through the voucher scheme, and 861 companies worth \$2.5 billion were transferred in the second (Jezek 1997:485). The Czech case demonstrates the power of mass privatization scheme to transfer the nature of ownership for thousands of enterprises at one time quickly, through free distribution. A real accomplishment consisted in leaving the valuation to the market (despite the fact that a history of market forces was quasi-absent).

The gains of the *Voucher-Based Mass Privatization* program can be summarized as follows: high speed, unrestricted character (open to everybody), and the transfer of a high volume of state assets. The voucher privatization scheme also laid out the foundations for the equity market and the stock exchange, both key market institutions. Moreover, by choosing voucher privatization over public auctions as the main strategy of ownership transfer, the government has willingly suppressed the rent-seeking tendency, and has put a lid over the hegemonic tendencies of the *nomenklatura* members.

The Voucher-Based Mass Privatization is not a perfect strategy. As Reed (1995:326) put it, "there has been clear disagreement over whether it is acceptable for the relevant ministry to be actively involved in the formulation of one of the competing projects, whilst simultaneously being involved in the process of deciding between projects." The voucher strategy still has to face the

problem of arbitrariness, though in a lesser extent than the Management-Employee Buyouts method. As Table 3 reveals, the Voucher-Based mass privatization is the least corruption-prone implementation strategy, since it is quick, the level of administrative discretion is limited, and there is transparency and free access to information. This method makes possible the legal transfer of a large number of state assets into private property, while limiting the ability of politicians and *kleptokratchiks* to exercise control rights during their implementation.

After Czechoslovakia split into the Czech Republic and Slovakia, economic transformation and privatization in the Czech Republic reached impressive results, whereas Slovak practices started to differ significantly beginning with January 1993. In the Czech Republic, "60 percent of state-owned assets were distributed free of charge (40 percent through voucher privatization and 20 percent through free transfer to municipalities), 30 percent were sold, and only 10 percent have yet to be sold" (Jezek 1997:448). Add to this success, the privatization of more than 22,000 small-scale enterprises in the first half of 1990s, and you will get the response to why the Czech Republic has succeeded in increasing the share of the private sector from the Gross Domestic Product 14 times during the period between 1990 and 1995 (see Table 2). The private sector has also grown significantly since: in 1995, approximately 70 percent of the GDP was produced by the private sector (see Table 2), and in 1997 the share increased to 75 percent (Jezek 1997:448).

To sum up, during the last eight years, the politicians of the Czech Republic has implemented fundamental economic reforms that motivated every citizen to actively participate in. Privatization was not only intended to transfer state assets to the private sector, but also to create the conditions for the introduction of economic relations between different agents. The Czech success can serve as an example for Romania, which, due to its fractional and convulsive privatization process, lags behind many of the countries in the region.

4.5. *East Looking West: Economic Growth, Democratization, and Corruption*

Like any other major change, a prospective transition from authoritarianism to democracy, and from central planning to market, is plagued with contradictions. In the case of Czech Republic, Charter 77's social and political militantism maintained alive the idea of "civil society," and facilitated an earlier start of the democratic consolidation. By contrast, Romania's road to democracy is shorter and narrower. It is shorter not only because of civil society's immaturity, but also because the process of democratization was not exactly fast during the Iliescu governance. At the same time, it is narrower because of numerous internal social convulsions (e.g., Jiu Valley miners' invasion of Bucharest), and the fragility of political alliances. However, in both Romania and the Czech Republic, the specter of Communism has not completely disappeared.

As I have stressed throughout the text, former *nomenklatura* members

continue to have strong ties with both informal economy and the official one, as a distinct social group of entrepreneurs. Heroes of the black market do not easily transform themselves into honest businessmen in a market economy (Matejko 1992:268). Different skills and, more importantly, a different mentality are needed. More in Romania than in the Czech Republic, the economic reform was initiated in conditions of huge popular demands, government, weakened by social pressures and the turmoil of political change.

Half-baked, poorly designed, inadequately implemented market reforms may boost corruption. Romanian case is exemplary in this sense. On the other hand, better designed and executed market reforms (as the Czech case stands for it) can constitute an effective obstacle against corrupt practices. Privatization, a crucial aspect of economic transition, is a *political* process, reflecting leaders' willingness or hesitation to embark on fast, transparent, and controlled actions. A public property that, through obscure insider deals, becomes a private monopoly controlled by a few shareholders is an explosive situation. Not only ordinary citizens are not motivated to participate in the efforts of transition (as their share of state property is small), but this context is potentially conducive to major social upheavals. Instead, a public property, when demonopolized and followed by adequate methods of privatization and transparent bidding processes can improve matters.

The voucher-based mass privatization, the main method in the Czech Republic, has a lower potential for corruption than MEBOs, the preferred

strategy in Romania until 1995. Thus, in a transforming economy, the character and the amount of corruption can depend on: (1) the scope of privatization (which can be assessed through its pace, level of discretion, and the degree of transparency), and (2) civil society's capacity to install institutions that control the rights of politicians, bureaucrats, and former *nomenklatura* members to interfere with economic activities.

It is probably correct to assume that the process of economic transformation can generate forces to reduce corruption in the long run. For those who see market reforms as sources nourishing corruption, I suggest them to reflect on the amount of corruption that would occur in their absence. Rent-seeking behavior can be limited by economic liberalization. But, if an economy is not prosperous, it cannot afford to pay its civil servants well, and thereby to reduce their motivation for corruption. Socio-economic improvement would calm down several of today's conflicts and antagonisms, freeing individual and collective energy for the creation of well being.

Democratic reforms can limit corrupt incentives, but the relationship is not straightforward. The costs of the electoral processes can be reasons for bribes or rent-seeking behavior. The explanation for such a practice comes almost instantly: It is easier for a capable and ambitious young person to hold an office that distributes import licenses or zoning approvals for new constructions than to become rich by way of legal business. The independent sources of authority characteristic of democratic or democratizing systems help limit corrupt practices

by multiplying the possibilities to check on officials' behavior. As I have argued earlier, an electoral system cannot function as an effective deterrent to corruption. Mechanisms of accountability (like checks on power), accompanied by a real separation of power within the state are also necessary.

However, a democratic regime, like an authoritarian one, is very much susceptible of political clientelism, an aspect that raises the question of whether there is a type of economy specific to democracy. Historical evidence indicates that democratic states have had in the past various types of economies (mixed -- in which the state was an important economic agent, and free market). Pye (1966:72-73) is among the scholars emphasizing that democracy is not a luxury in the process of democratization (What else is taking place on East-Central European countries if not a political and economic modernization?).

On the same line of thought, I sustain the idea that democratization is a precondition for a successful economic reform. Furthermore, a successful economy, by satisfying material aspirations, can integrate the population into a cohesive political community. The context of Czech Republic best illustrates how democratic reforms have created the possibility of an economic integration *en large*, which, in turn, stimulated further political development.

A concomitant democratization makes the transition toward a free market system more difficult and unstable (Sirbu 1995:477). Due to an uneven distribution of the general costs of transition, but especially of the benefits, the government is continuously exposed to political and social pressures of all kind.

The case of Romania is exemplary of how the economic reform was hindered as a result of delayed democratization.

However, this is not to say that democratization cannot be complementary to economic reform. What I want to suggest here is that it is better to initiate political reforms in the first stage of the process, as it not only facilitates economic transition, but it also creates the conditions for increased transparency of elite's actions, and thereby it reduces the incentives for corruption. The creation of new political institutions that provide new norms, as well as checks and balances, can be a valuable means of locking in economic reforms.

Cross-cultural experience also indicates that deeper analysis of the triad democracy - market economy - corruption must also take account of differences in the structural and institutional legacies. Clearly, Romania and the Czech Republic have different legacies in their economic and social structures. The consequences of authoritarianism and planned economy will not go away overnight. They will constrain any project of a transition without historical precedents. The two countries share dissimilar experiences not only before "the great transformation," but also during the on-going transition process (e.g., experimenting various approaches to reform, with different outcomes). As a result, one should not exclude the possibility that future has big surprises in store.

CHAPTER FIVE

INSTEAD OF A CONCLUSION

5.1. *What Comes Next?*

After the collapse of Communism, almost instantly scholars stepped forward to propose strategies and deconstruct scenarios, to suggest paths and test theories. But how can the master blueprints designed for one country function at the same parameters for the others? The reality indicates that a plurality of transitions is currently taking place in East-Central Europe. As Stark (1992) put it,

Across the region, we are seeing a multiplicity of distinctive strategies; within any given country, we find not one transition, but many occurring in different domains - political, economic, and social - and the temporality of these processes is often asynchronous and their articulation seldom harmonious. (P.18-19)

Social change is a result of numerous interactions between traditional forces and pressures attempting at modernization. The very first result of the confluence between socialism and capitalism, and between authoritarianism and democracy is a mushrooming of corrupt practices in every country.

There is no cookbook for democracy and a free market system. Capitalism cannot be implemented "by design" Stark (1992:19). The new social and political order cannot be introduced by dictation. The chaotic, and, in some cases, primitive conditions of industrial and infrastructural networks do not permit a rapid economic transformation. Psychological and moral preconditions for

private investment are still rudimentary in some cases. Nowhere has the Western type of democracy been achieved. Considering all these, there should be little surprise for everybody that some countries have been less successful than others in modernizing their political institutions and economic processes.

Political reformation has been more successful than economic progress, though, the possibility of returning to authoritarian forms of government cannot be completely excluded. A plausible economic scenario would consist in the emergence of a mixed type of market economy, with the state sector continuing to play an important role. The idea of a “third way,” though repudiated⁹, seems to be a real possibility.

A middle alternative between socialism and capitalism (which could very well be the *n*th way), initially had supporters among the artisans of the economic reform. However, the search for this mythical possibility has been mostly abandoned, as it seemed impossible to reconcile the differences between the two economic orders.

If we consider centralization and decentralization of power as the main features of both political and economic subsystems, then four directions of change can be imagined (see Table 4). The two features of the political system would be *pluricentrism* (e.g., Western democracies) and *unicentrism* (e.g., authoritarian a totalitarian regimes); concomitantly, an economy can be *pluralistic* (e.g., the free market) or *centralized* (planned).

⁹ Vaclav Klaus, former Prime Minister of Czechoslovakia, in a televised interview, expressed the idea that “The third way inevitably ends in the Third World.”

Table 4
Four Conceptual Models of Economic and Political Orders

<i>Economic Subsystem</i>	<i>Political Subsystem</i>	
	<i>Unicentrism</i>	<i>Pluricentrism</i>
Planned Economy	1	2
Free Market	3	4

The four possible outcomes are ideal types, as elements of planned and market forces coexist in all societies as do pluricentric and unicentric political solutions.

Before the initiation of systemic reforms, all East-Central European countries were characterized by planned economy and the centralization of power (quadrant number 1). Once reforms were initiated, every country aspires to achieve a pluricentric-market model (quadrant number 4). However, despite their commitment to success, no single analyst can predict with certitude what the final outcome is going to be. The plausibility of a pluricentric-planned system (quadrant number 2) and of a unicentric-free market model (quadrant number 3) cannot be completely excluded. Within each country the force of groups of interest preferring one of the four types over the others varies.

In the case of Romania and the Czech Republic, recent political

developments (the resignation of Czech Prime Minister Vaclav Klaus, the surgery and hospitalization of President Vaclav Havel, on one side, President Emil Constantinescu's war against systemic corruption, the resignation of the Ciorbea Cabinet and the appointment of the new Prime Minister Radu Vasile) warn a word of caution. Still, using the ideal-types of quadrants 1 to 4 (see Table 4), I think that corruption will continue to be a major issue in the upcoming future. As Sajo (1998:40) puts it, "The level, nature and future of corruption and clientelism depends very much on the ways in which national property has been privatized."

The economic and political reforms of the Czech Republic were better designed and implemented than were the Romanian ones, though there is still a lot to be done in this direction. The Czech political and economic arenas seem to be well settled, and democratic consolidation and "marketization" are likely to continue, despite the threats posed by Klaus' demise and Havel's retreat from office due to serious health problems. From this perspective, I would advance the idea that the Czech Republic is closer to quadrant 4 than to quadrants 2 or 3.

On the other hand, one cannot deny the efforts of the Romanian people towards the internalization of substantive democracy's attributes (e.g., rejecting of the unwanted candidates, replacement of the old political culture, and the activation of citizenry). Still, Romanian civil institutions need to grow in number and in strength, so they could effectively counterbalance the power of state functionaries and check their abuses. Thus, after considering these aspects, I

incline to consider the Romanian political system as being close to pluricentrism. In terms of economic reform, the Romanian road to capitalism was very sinuous, with a first period of five years marked by lacks of transparency, *appartchiks'* abuses, and sustained efforts to develop financial markets. Fortunately, the second period (starting with 1995) proved to be much more promising in terms of accomplishments than the first one. The state continued and continues to be the most important agent on the economic arena. This fact leads to the idea that, despite its democratic advancements, Romania continues to have a centralized economy, characteristics that fit quadrant number 2.

The long-run trend for Romania, I suspect, would be that of a gradual shift towards the fourth quadrant, though uncertainty is a factor that cannot be omitted. The Czech Republic will consolidate its position inside the fourth quadrant; for both countries corruption levels will scale lower if political and economic reforms continue to be implemented, with the Romanian index possibly decreasing at a higher pace than the Czech level of corruption (as Romania has the lowest variance of all 52 states – see Appendix).

5.2. *Final Remarks*

Corruption in Romania, the Czech Republic or elsewhere is a set of phenomena with multiple determinants, located at the intersection between public and private spheres. Weber (1968:956-1002), writing about the professional bureaucrat that acts in a rational and impersonal manner, and

whose public life is strictly delimited from the private one, noted that any interference between the two leads to the prostitution of the former.

All countries in the region, though some in a lesser degree than others, are characterized by unpredictability. Due to the immaturity (or puberty) of civil society and the high degree of discretionary power displayed by some public bureaucrats, corruption can reach higher dimensions in some societies than in others (e.g., Russia and the Czech Republic). Consequently, the most corrupt-prone societies have limited competitiveness on the international market, as they cannot adequately respond to the authentic competition generated by twentieth century capitalism.

A market economy efficiently solves the problem between supply and demand. The longer the road to mass privatization, a road characterized by obstacles of all kinds, the longer the executive decision of the *nouveau riche* stratum, and the wider open the door for corrupt practices. In Romania, corruption has been fueled by the “unfinished business” of privatizing state enterprises. As mentioned earlier, this situation favored the “old guard” members and consolidated their monopolistic position. Not only was the time of privatization delayed, but also the preferred method created the most favorable context for corruption. The management-employee buyouts are conducive of corruption because of high levels of discretion given to the economic directors. In contrast, the Czech Republic has implemented more rapidly and more successfully structural economic reforms.

With the exception of one study (Mauro 1995), there is little empirical evidence that corruption is linked with low capital investments. The biggest problem is not the absence of capital (which is a scarce resource in most economies) but the manner in which the capital is invested. Tragically, Romanian *entrepratchiks* are more interested in the *manipulation* of capital (which temporarily assures their benefits) rather than the *investment* of capital. Thus, corruption should not be denounced as the main cause for economic failures, but for its damage to social harmony.

If it is accepted that the primary dimensions of corruption are political and economic, then solutions should come from these two sectors. Democratic reforms must be implemented at a faster pace, and accepted widely. Still, as reality proves, they cannot solve all the problems of the past. Market reforms and a state of democracy mutually reinforce one another. Fundamental progress in one sphere appears to be a precondition of progress in other. On the other hand, it is clear that democratic pluralism and a market economy are not a cure for corruption.

If an additional moral dimension is identified, an alleviation of corruption (in Romania more than the Czech Republic) can be provided by socializing people for an internalization of the new social values (like honest competition, initiative, professionalism, efficiency, citizenry, and activism). What Romanian culture needs most (and this assumption should be valid for other countries in the East-Central European space, as well) is a “socialization of the socializer, “

using Fiszman's (1972) terminology. This process consists of two distinctive, though largely parallel processes: that of "de-socialization, and that of re-socialization" (Shafir 1983:397). The institutions of an active civil society must also work hard to disperse the remnants of a nocive mentality that encourages unconditional submission.

Several actions can be done to curve corruption. First and foremost, strong checks and balances, so discretionality would have no basis for existence. Second, by taking St. Augustine reasoning ("States without Justice are but bands of thieves grown large"), penalties against corruption need to be stiffened. Third, intellectuals should play a more active role within the society. Unlike the Czech intellectuals, which have maintained alive the idea of a civil society, preparing the background for political and economic reform, the Romanian counterpart, partly of too much indoctrination and supervision, was not exactly active. This explains the convulsion of the Romanian society, as the political reform is simultaneously accompanied by economic change (instead of a mental epuration, as it should have been the case). The promotion of higher educational standards, greater interest in matters of public concern, and broader respect for the values that keep a nation united should be all popular desiderata, for the more progress a society achieves in this area, the smaller will be the room for the forces tolerating corruption to achieve their ends.

The contemporary situations in Romania and the Czech Republic are best expressed not by a coherent set of explanations, but by a series of questions

that can be only half-answered. Transition is a hybrid process in which different (sometimes, even opposite) systems of logic coexist. Antinomies and paradoxes abound; ambiguities persist; oscillations between extremes (etatism-centralization, planned economy-free market; pluricentrist-hegemonic tendencies) are a commonplace. Transformative periods are also characterized by conflicts between mentalities (modes of consciousness), as they require not only economic and social changes, but also changes in behavior and attitudes. A mentality of submission or that committed to the idea of rapid and illicit gains, as I have tried to address here, can seriously affect the outcomes of societal transition.

One should not see this exploratory study as definitive to the topic. Still, its guidelines can serve as starting points for future social research aimed at refining the analysis of the phenomenon of corruption in societies in transition. The triad corruption-politics-economy, in the case of Romania and the Czech Republic, has not been approached in an exhaustive manner, for the scope of the study both limits and is limited. By comparing different societal contexts I suggested that pluralism and an active civil society, as well as transparent and efficient privatization methods, can set the stage for a reduction of corruption in the future.

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Appendix. Corruption Index 1997

Rank	Country	Score 97	Amount	Variance
1	Denmark	9.94	6	.54
2	Finland	9.48	6	.30
3	Sweden	9.35	6	.27
4	New Zealand	9.23	6	.58
5	Canada	9.10	5	.27
6	Netherlands	9.03	6	.23
7	Norway	8.92	6	.51
8	Australia	8.86	5	.44
9	Singapore	8.66	6	2.32
10	Luxembourg	8.61	4	1.13
11	Switzerland	8.61	6	.26
12	Ireland	8.26	6	1.53
13	Germany	8.23	6	.40
14	United Kingdom	8.22	6	1.43
15	Israel	7.97	5	.12
16	USA	7.61	5	1.15
17	Austria	7.61	5	.59
18	Hong Kong	7.28	7	2.63
19	Portugal	6.97	5	1.02
20	France	6.66	5	.60
21	Japan	6.57	5	1.09
22	Costa Rica	6.45	4	1.73
23	Chile	6.05	6	.51
24	Spain	5.90	6	1.82
25	Greece	5.35	6	2.42
26	Belgium	5.25	6	3.28
27	Czech Republic	5.20	5	.22
28	Hungary	5.18	6	1.66
29	Poland	5.08	5	2.13
30	Italy	5.03	6	2.07
31	Taiwan	5.02	7	.76
32	Malaysia	5.01	6	.50
33	South Africa	4.95	6	3.08
34	South Korea	4.92	7	2.76

Appendix (continued)

35	Uruguay	4.14	4	.63
36	Brazil	3.56	6	.49
37	Romania	3.44	4	.07
38	Turkey	3.21	6	1.21
39	Thailand	3.06	6	.14
40	Philippines	3.05	6	.51
41	China	2.88	6	.82
42	Argentina	2.81	6	1.24
43	Vietnam	2.79	4	.26
44	Venezuela	2.79	5	.51
45	India	2.75	7	.23
46	Indonesia	2.72	6	.18
47	Mexico	2.66	5	1.18
48	Pakistan	2.53	4	.47
49	Russia	2.27	6	.87
50	Colombia	2.23	6	.61
51	Bolivia	2.05	4	.86
52	Nigeria	1.76	4	.16

Source: (Transparency International and Göttingen University,
<http://www.gwdg.de/~uwww/icr.htm>)

Rank reflects the position of a country in comparison to all other countries which were included into the list.

Score 97 relates to the perception of the degree of corruption as seen by businessmen, risk analysts and the general public, and ranges between 10 (clean) and 0 (highly corrupt).

Amount refers to the number of surveys that assessed a country's performance. 7 surveys were used and at least 4 surveys were required for a country to be included in the 1997 index.

Variance indicates differences in the values of the sources for the 1997 index: the greater the variance, the greater the differences of perceptions of a country among the sources.