Review Essay

Domestic and Global Dimensions of Post-Communist Institution-Building

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The end of the Cold War and communist collapse presented scholars of political economy with an unprecedented opportunity for theoretical advancement. The governments of the twenty-eight states that emerged from this collapse addressed the key challenges of transformation in different ways, producing varied patterns and configurations of economic and political institutions and reflecting divergent geopolitical trajectories and aspirations. Although the governmental policies and institutional dynamics in the region might have differed, the larger context of the expanding and increasingly interconnected global economy within which these transformations took place was the same for all states. These important points of divergence in policy choices, along with various domestic-level factors and the commonalities of challenges facing post-communist governments, allow for a productive inquiry into the role of domestic and global factors in producing institutional outcomes across the region.

The four books reviewed below are among the more recent, notable scholarly outputs that examine the nature and challenges of institution-building in the post-
In this review I show, first, that the main knowledge accumulation—of the gradual, “normal science” type—has been occurring through the studies focused on a mid-range level theorizing that is firmly embedded in the larger political economy literature inquiring into domestic-level institutions.¹

When it comes to more ambitious theoretical undertakings, the most innovative analytical work has tried to address the complex institutional linkages and interconnections facing governments as well as social and economic actors in the current global context. One of the defining elements of the post-Cold War period is the highly globalized economic and financial institutions that favor capital and provide opportunities for those in power to maintain and expand their influence through cross-border activities. Two of the four books reviewed here zoom in on the dynamics of global interdependencies that involve the post-communist countries and the active role played by elites in constructing and taking advantage of these relationships. These studies that break with mainstream “methodological nationalism” provide the contours of a potential analytical breakthrough necessary to integrate the emergence of the unique historical context associated with the advance of economic globalization, dubbed by some economists as “hyperglobalization,” in the last few decades.² Exploring the institutional implications of these global interdependencies, I argue, is the next big item on the research agenda for social scientists interested in political economy and institutional transformation.

Finally, the latest scholarship in the political economy of post-communist transformation demonstrates methodological ambitions. One of the studies reviewed below engages with experimental methods that have been rapidly expanding in political science over the last two decades.

While the motivating research questions of the books reviewed here vary, as do their case selections and methods, their main findings complement each other. They promote a lively debate about the origins of good and bad governance, the linkages between domestic and international levels of analysis, the relations between formal and informal institutions, the role of structure and agency in building modern capitalism domestically and globally, and about the role of power and politics in these processes. The bigger story that emerges from all four books speaks to the continuing challenges the post-communist countries face regarding (1) institution-building, especially institutions responsible for the security of property rights and government accountability, and (2) balancing between policies that encourage economic growth versus those that promote just and equitable development. These two parts of the story are related because weak institutions shape policy-making and thwart the achievement of that balance. An essential part of the story also relates to the challenges confronting Western governments (whose economic actors frequently dominate the global economic system) and international financial institutions (IFIs) in regulating the global financial system to
counteract potential abuses and, once again, to better balance the goals of economic efficiency enabled by neoliberal policies with the goals of social welfare and justice. The rise of global populism is arguably just one crucial example of the political externalities of unbridled neoliberal policies that prioritize economic efficiency.³

Securing Property Rights in Russia and Beyond

The books by Timothy Frye and Jordan Gans-Morse explore the “holy grail” in the political economy of transition, the evolution of property rights—an issue considered by the mainstream institutionalist theories in political science and economics to be vital for economic development and national prosperity.⁴ Property rights affect investment decisions and production activities. If asset holders fear expropriation, they move their operations to safe havens or invest more resources into defending their rights, which leads to economic inefficiency and, potentially, other types of problems. Both Frye and Gans-Morse explore the dilemmas related to economic activity in the context of insecure property rights in the Russian institutional context. Given Russia’s acute problems in this sphere, the literature on this issue has been growing.⁵ Both authors have already published influential studies on this topic, especially Frye who has produced some of the pioneering scholarship on state-business relations in Russia since the 1990s.⁶ Both Frye and Gans-Morse rely on large-N statistical analysis using multiple surveys of firm managers as well as quasi-experiments (mostly embedded in surveys) featured in Frye’s book. Nonetheless, their analytical approaches to studying property rights institutions in Russia vary.

In his Property Rights in Post-Soviet Russia, Gans-Morse develops the demand-driven approach, which highlights the role of firms’ strategies and behaviors in the changing dynamics of property rights in Russia. Property rights institutions are not merely a function of state capacity and the state’s supply of legal institutions, the author claims. The factors that shape the firms’ demand for formal (i.e., state-provided) legal institutions and the potential barriers that might shape such demand must also be account for. Gans-Morse’s study spans across the 1990s and 2000s and highlights significant changes in the strategies firms undertook to secure the property. If in the 1990s many firms relied on private enforcement (i.e., private rackets) to protect their property, in the 2000s firms increasingly turned to the law and started taking their disputes to court.

As such, Gans-Morse develops a “firms-centered” argument that contests the discussions focused on the evolution of state legal capacity to explain the prevalence of formal legal institutions. Firms can shift to legal strategies, even when the state legal capacity stays the same, and, conversely, they can prefer illegal strategies in the context of the improved legal capacity. What matters, Gans-Morse argues, is firms’ perceptions of state institutions’ capacity, which might differ from the more objective indicators. For example, his analysis of perceived state legal capacity reveals that despite widely shared observations, firms did not see any improvements in legal institutions during the 2000s.
Citing Kathryn Hendley’s study, Gans-Morse observes that firms’ choices to litigate were not correlated with many of their evaluations of the court system, with the exception of legal costs and delays (pp. 94–95). Indeed, the gap between perceptions of a phenomenon and real indicators is frequently observed in the studies of corruption, including those focusing on Russia. However, this does not mean that Russia’s legal system has not improved. Kathryn Hendley, who has long studied the demand-side drivers for the rule of law in Russia, has meticulously documented firms’ increasing use of the legal system and argued that the legal system has become more accessible and more efficient.

So what shapes firms’ perceptions of state legal institutions? This question remains underexplored and, arguably, leaves behind a critical niche that could have provided further analytical leverage for answering the central questions in this study. One potential answer could be derived from the understanding of Russia’s crony capitalism and the importance of linkages between economic and political actors. Many scholars of state-business relations in Russia have emphasized the imperative Russian firms face against the so-called “roof” (krysha). Gans-Morse writes about a variety of kryshas in Russia, notably banditskaya (criminal protection rackets) and mentovskaya (law enforcement agency-based) (pp. 54–56). Not only violence-wielding criminals, but also well-placed state officials prove to be an essential source of protection and support for business actors. The nature of such linkages and the degree of proximity of firm managers to state officials—whether on the local, regional, or national level—might play an important role in firms’ evaluations of state institutions. Regional-level studies have shown the significance of political factors—such as the length of gubernatorial tenure and whether the governor is local or an outsider—on regional firms’ perceptions of the courts on the regional level. These findings might be an indirect sign that the type of connections businesses can build with state officials shapes their interaction with state institutions and, subsequently, the evaluations of their effectiveness and impartiality. Other studies also emphasize the importance of differentiating between informal rules-based systems that could be categorized along with the criteria of regulatory uncertainty, demonstrating that firms’ attitudes and decisions are driven by the degree of uncertainty in the institutional environment. Stable connections to state officials (even if informal in nature) can mitigate such uncertainty, thereby shaping firms’ evaluations of how state institutions function and, arguably, a sense of their property rights security. As David Szakonyi has demonstrated, businesspeople who win elected offices in Russian regions improve the profitability of their firms by gaining access to state bureaucrats.

This differentiation in the degree of proximity to the state (and state officials) that is, arguably, crucial for firms’ property securing strategies is not addressed in Gans-Morse’s study. All firms are considered to be operating on a more or less equal playing field. The selection processes that have been going on in the Russian economy over the last three decades, however, were not driven by the economic competition forces. Frye, as I elaborate below, explores the effects of political connections on perceived security.
of property rights in his book. He shows that connections could be of different types, and these differences matter for whether firms see themselves as more or less secure.

Exploring the conditions under which economic actors turn to formal legal institutions, Gans-Morse suggests that it happens when the effectiveness of illegal strategies goes down along with the demand-side barriers to using the law. These barriers, according to Gans-Morse, are specific beliefs and behaviors that lead actors to avoid formal legal institutions and resort to violence and corruption. One such belief is the nature of expectations regarding how other firms would behave in a given situation, pointing to the importance of social equilibrium governing behavioral choices through shared perceptions and understanding. In other words, no firm wants to end up being a sucker, therefore its behavior is constrained by the perceived optimal behavior in a given institutional environment characterized by many firms making specific calculations and decisions. If everyone is believed to rely on corrupt means, preference for corrupt behavior turns into an equilibrium-sustaining choice. It is the only rational strategy if a firm wants to remain competitive.

The self-sustaining nature of the sub-optimal equilibrium in which Russian firms found themselves is similar to the “the system made me do it” notion advanced by scholars studying systemic corruption issues. The question remains: what needs to be done to transform such a social equilibrium? The approach developed in this study reveals the importance of this equilibrium, but it falls short of signaling the ways out of it. Gans-Morse’s answer could be summarized as follows: the nature of this equilibrium is underpinned by transaction costs (linked to acquiring information, negotiating, and enforcing a transaction, whether licit or illicit) and the risk of sanctions (the size of penalties a firm might experience for reliance on violence and corruption). The increasing cost of illicit strategies (i.e., risk of sanctions) along with the decreasing cost of legal strategies work to shift firms’ expectations from vicious into virtuous circle dynamics. The notion of a tipping point captures such transformation. Gans-Morse’s discussion in Chapter 5 offers one relevant example of such a shift when tax compliance increased in Russia in the early 2000s following the long-awaited governmental tax reforms that lowered one of the main hurdles to using formal legal institutions (p. 98). This observation, however, points to the role of state-initiated reforms in changing firms’ property security strategies and thus underpins the importance of supply-side explanations, contrary to the author’s main focus on the demand side.

The issue of what determines the effectiveness of illegal strategies is addressed in Chapter 6 of the book. Gans-Morse adheres to a rationalist, transaction costs-based approach on this issue as well and argues that the cost of illegal strategies increased in Russia with the degree of consolidation of property in the aftermath of the “up-for-grabs” situation of the 1990s. This was, in fact, the central expectation of the early liberal reformers who thought that property would be more secure as it finds its effective owners. The problem is that this expectation was never fulfilled because the shift to legal strategies did not bring the desired security of property rights. Legal strategies often turned into a mechanism for reiderstvo (i.e., corporate raiding that relied on legal mechanisms to redistribute property). Gans-Morse is careful to recognize that the
manipulative use of legal strategies accounts for only a small fraction of the increase in reliance on law and legal institutions (p. 68–69). Nonetheless, he emphasizes that the growing reliance on formal institutions occurred “amidst a growing wave of state predation” (p. 91). These developments once again point to the fundamental importance for Russian businesses to have close links to the state (a state-based roof) that could shield them from predation. In short, within Russia’s domestic landscape, many of the factors that matter for securing property rights are invariably linked to state institutions that play a central role in shaping the institutional environment for economic activity. Things are different if we look beyond the state borders, and, as many of the present-day businesses operate globally, the incorporation of the global institutional environment is essential.

Gans-Morse recognizes this too, noting that the process of property consolidation lengthened owners’ time horizons and encouraged long-term investments, thereby creating the demand for foreign investments. As firms integrated into the global financial infrastructure and increased their reliance on banks for financial transactions, the cost of illegal strategies sharply increased. Firms started worrying about their reputation and reformed their operations in the direction of greater transparency (p. 131). In short, the evolution of the domestic financial system along with the growing demand for external financing shifted firms’ incentive structures creating important constraints on illegal strategies. This important argument captures the dynamic of Russian businesses getting integrated into the global economy and being disciplined by it (so to say) in order to take advantage of created opportunities. Hilary Appel and Mitchell Orenstein focus on similar dynamics (as I discuss below), but from the perspective of post-communist governments. One important nuance should be added to Gans-Morse’s analysis in this regard: integration into the global economy not only increased the cost of illegal strategies, but also allowed for tapping into the global supply of institutions serving to protect property. When the state supply mechanism did not deliver—in initially due to state weakness and, later, due to state predation—asset-holders could secure their property by taking their assets out of the domestic economy and parking them abroad in offshore accounts, investment holdings, and luxury real estate. The massive capital flight into offshore zones represented a crucial exit mechanism used by Russia’s property owners to circumvent the ineffective domestic institutions. The global financial system allowed for a transnational institutional arbitrage through which the right-holders could reap the benefits of ineffective institutions at home to make money and effective institutions abroad to secure their profits.13 The big lesson from these processes that applies not only to Russia but to other emerging economies as well is that political economists who study the rule of law and property rights institutions cannot limit themselves to domestic level analysis. States’ institutional evolution in the contemporary world is shaped by global institutional structures and interdependencies. Gans-Morse’s book contains important insights that direct our attention in this direction, but the book remains largely vested in the domestic field.
In contrast to Gans-Morse’s ambitious attempt to develop a general supply-and-demand-driven approach to evolving property rights, Timothy Frye’s *Property Rights and Property Wrongs* eschews a unified theory of property rights and explores the more narrowly-framed, yet crucially important questions located at the nexus of power, norms, and institutions and their effects on property rights. This book brings together many years of research conducted by the author on this subject. Similar to Gans-Morse, Frye sees more value in viewing property rights as “a fluid and dynamic relationship,” but if Gans-Morse traces the temporal evolution of this relationship in Russia (from private coercion to corrupt and, later, legal coercion), Frye’s book is built around a series of investigations into how this relationship depends on the bargaining power of the right-holders and rulers, existing institutions, and social norms. The bargaining power, he argues, depends on firms’ size, asset mobility, and political connections that together shape the perceptions of security of property rights. Larger firms and those with mobile assets normally feel more secure in the face of threats to ownership rights. Additionally, political connections could be different in kind. Frye advances an original treatment of this issue, unpacking the variable into different categories such as connections via state ownership, institutional connections via prior work experience, personal connections via relationships with powerful state officials, and partisan connections via membership in United Russia party. His analysis reveals that these different categories have different effects on perceptions of security of property rights thus pointing to the need for a more nuanced understanding of how and when political connections matter.

Both authors deal with formal and informal institutions. Gans-Morse views them as functional substitutes, an idea inherent to his rationalist treatment of the issue of the legal and illegal property securing strategies. Frye pays more attention to the role of politics and bargaining power in producing differential levels of property rights security. In his study of the role played by firms’ reputation and courts, institutions emerge more as complementary: courts matter, but so does firms’ reputation, and, specifically, whether they have bad reputation. On the issue of the importance of reputation, Frye’s empirical analysis relying on the data from a 2005 survey supports Gans-Morse’s argument and extends it by showing that reputation matters not only for international but also domestic transactions. Frye employed a survey experiment to explore this issue by manipulating the source of information about a firm’s reputation. The results revealed that, different sources of information notwithstanding, the signal about bad reputation works to suppress the propensity for trade.

Frye’s research also brings attention to the role of social norms in shaping property rights in Russia. On this issue, he builds on the tradition laid by Douglass North (1990) and other scholars in new institutional economics who view social norms to be crucial determinants of economic and political development. Frye’s framing of this issue is particularly relevant for the Russian case, a country that had to deal with the issue of illegitimate post-Soviet property redistribution and the threat of reversing privatization. Specifically, Frye tries to find out whether the popular attitudes towards privatization could be shaped by the owners’ purposeful actions in pursuit of changing those
attitudes. The “original sin” hypothesis he advances suggests that the manner in which property was transferred into private hands originally shaped popular views about the property rights. However, could the “original sin” of shady property acquisition be compensated by the “good works” (i.e., the provision of public goods) initiated by private actors to correct for the earlier wrongs? The answer to this question is affirmative: Frye argues that both the state and business elites have the capacity to influence the legitimacy of property rights. Frye’s research shows empirically that the agency of right-holders matters for establishing more legitimate property rights, thereby also propping up Gans-Morse’s overall message of bringing attention back to business actors and their incentive structures.

In the end, Frye’s analytical approach that aims to contribute to a variety of debates in the political economy of property rights benefits from its cognizance of the endogeneity inherent to studying norms, institutions, and behavior at the same time. He deals with it in original ways, such as, constructing a study driven by an exogenous shock to ruler’s power (as happened in Russia’s 2011 parliamentary elections, which revealed a weakened party of power). Less ambitious than Gans-Morse’s project in terms of promoting a unifying theory of property rights, Frye’s scholarship on property rights in Russia contributes valuable insights on (1) the role of politics and political connections for property rights; (2) the heterogeneity of property rights security within the same institutional environment and the value of viewing property rights as a private or a club good; (3) the importance of formal institutions in autocratic regimes; (4) the duality and bias inherent in the legal system that tries to protect core constituents and minimize the loss of revenue at the same time; and, finally, (5) the importance of the rulers’ bargaining power for the nature of legal institutions in autocratic regimes (pp. 202–204). These multi-vector explorations contribute to the literature on authoritarian regimes, governance, and institutional evolution and speak to the prospects of Russia’s economic development and prosperity. At the same time, while Gans-Morse does make an attempt to integrate the contemporary realities of global capitalism and the growing dependence of Russian firms on external financing into his analysis, Frye’s book emphasizes the domestic sphere and does not leave any space for international drivers of institution-building and political economy dynamics in the post-communist world.

The scholars of international business and management studies have long noted the expansion of Russian businesses abroad. Not only big multinational firms in energy and commodity sectors but also Russia’s banking, construction, and high-tech sectors as well as the small and medium size firms have internationalized. Russian outward foreign direct investment (OFDI) skyrocketed in the first decade of the 2000s. Political economists studying Russia have been a bit slower to catch up on the potential institutional implications of these developments compared to scholars of post-communist Eastern Europe and Central Asia, as I show next.
The Dark Side of Globalization: Dictators, Their Wealth, and Authoritarian Regimes

Alexander Cooley and John Heathershaw’s *Dictators Without Borders: Power and Money in Central Asia* builds precisely on the issues that are omitted by Frye and Gans-Morse. Focusing on five post-communist states in Central Asia, the authors explore the extent to which the economies and polities of these states are interlinked with the global economy and institutions. Contrary to widespread perceptions of this region as isolated and largely irrelevant to the rest of the world, Cooley and Heathershaw highlight the intensity and depth of global connections that the economic and political actors from these countries have cultivated over the last few decades. Furthermore, contrary to common perceptions that associate a country’s openness with democracy, the countries under investigation in this book manifest how the pursuit of global connections can advance the aim of strengthening authoritarian rulers and systems. How is that possible?

Based on years of field research and tracing the actions of key economic and political actors—especially as they gained publicity beyond their countries’ borders—Cooley and Heathershaw demonstrate that contemporary authoritarian leaders are not confined within the borders of their states: They leverage transnational connections and institutions in pursuit of their own political and economic goals; they lobby foreign governments and create political and economic transnational coalitions; they punish their enemies abroad; they take their money and families out of the country; they bribe, kill, buy and sell, and they hire lawyers and promote authoritarianism and authoritarian practices globally. Such phenomena as repression, securing property rights through elaborate financial schemes in offshore zones, and obtaining legal decisions on property conflicts are all the type of activities that have broken out of the national boundaries and turned transnational. Cooley and Heathershaw’s investigation reveals that the usual dichotomies of domestic-foreign and private-public on which scholars regularly rely no longer capture the essence of political processes and the driving forces of institutional change occurring in modern times. Methodological nationalism (i.e., the tendency to confine political and institutional analysis by a country’s borders) comes at the cost of ignoring the outsized role of transnational connections and processes that shape political and institutional outcomes. With this book, the authors add to the latest literature in political science that emphasizes the role of global factors and linkages for the domestic-level social and political outcomes.17

The story of post-Soviet Tajikistan told through the experience of a state-owned aluminum company, Talco, which is embedded in the global network of offshore businesses, engaged in complex extraterritorial legal processes, and controlled by the country’s president Emomali Rakhmon to the benefit of his family, is just one example of how domestic and global, private and public, formal and informal, economic and political get entangled in one (or many) complex nods. The story of modern capitalism and even domestic regime-building in Central Asia is a global story, as Cooley and Heathershaw demonstrate. What is important in this story of corruption in Tajikistan is

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that it would not have been possible without willing global participants and institutional mechanisms available for exploitation. The authors argue:

The suggestion that this corruption is an entirely cultural and local phenomenon is misleading. Without the financial and international instruments of offshore vehicles and extraterritorial legal processes, corruption on the scale described here would be neither possible nor effective. If major western companies, American regulators, due diligence researchers, and international organizations were not willing to turn a blind eye to the likelihood of corruption via secret jurisdictions, then the capture of the state by the family could not have occurred in the way that it has. (p. 111)

Cooley and Heathershaw find themselves in less charted territory than the authors of two previous studies, and, methodologically speaking, their study is less systematic and their findings are less robust. They address the challenges of their research head-on and recognize that studying illicit global economy is methodologically fraught. They have to rely on data leaks such as Panama Papers or court cases with available legal records. Still, publicly available data are limited, and there are issues with reliability and data quality even when the data are sourced from the legal records (p. 21). It is hard to do systematic survey research on this subject, although there are examples of original experiments conducted by Jason Sharman and his colleagues to explore the regulation of tax havens and the ease of creating offshore companies that are practically impossible to trace. Nonetheless, the approach to data-gathering adopted by Cooley and Heathershaw allows them to support their more prominent points: modern day corruption is not exclusively domestic in nature. More often than not it is global and it involves international actors and institutions.

Who are the domestic actors involved in these corrupt transnational networks? Cooley and Heathershaw’s investigation of four Central Asian states shows the centrality of family and blood ties in Central Asia confirming earlier research on the importance of clan-based networks. The key players discussed in this book besides the presidents of these countries are sons, daughters, and in-laws. Gulnara Karimova (Islam Karimov’s daughter) in Uzbekistan is described as a “robber baron,” involved in transnational business activities and a subject of numerous criminal investigations abroad for corruption and money-laundering (p. 129). Nursultan Nazarbayev’s son-in-law Timur Kulibayev is also in the center of a few bribery and corruption scandals in Kazakhstan. Similarly, in Kyrgyzstan, Prince Maxim, President Bakiyev’s son, was one of the most powerful businessmen in the country during his father’s presidency and one of the central figures discussed in the book. After the fall of Bakiyev from power in 2010, Maxim fled to London. He was arrested in London at the request of the U.S. authorities, but the case against him was eventually dismissed. The court in Kyrgyzstan sentenced him to twenty-five years in prison in absentia.

The central actors abroad are different. They involve a more diverse group that consists of legal firms that register offshore companies; real estate companies that sell luxury property in global cities such as New York, London, and Los-Angeles; high-paying corporate lawyers hired for defense purposes; lobbyists and PR consultants that
promote economic interests of specific individuals through state officials, parliamentarians, and the public media. These actors have been recently dubbed in the Western policy-making and think tank circles as “the enablers.” Understanding these chains and interconnections is crucial for a more realistic view of how global capitalism works and what its central weaknesses are that might undermine its legitimacy and longer-term prospects. Arguably, Western governmental and international institutions, such as the U.S. Department of Justice that enforces the Foreign Corrupt Practices Act, the U.S. Department of Treasury responsible for the national anti-money laundering (AML) strategy, the U.K. and Swiss AML legislation, the World Bank, the Financial Action Task Force (FATF), and all other institutions that set the rules and regulations for the global financial system, are also important players in this global chain.

Cooley and Heathershaw’s main message applies well beyond Central Asia and is relevant for the research questions central to the previous two studies. Not only corruption, but securing property rights is also a process shaped by globalization. Russia is a prime example of that. The amount of capital taken out of the Russian economy over the last three decades by its domestic asset-holders has reached, according to some accounts, one trillion USD. Russia’s massive capital flight that ends up being parked in offshore companies and tax havens represents an important exit mechanism for Russian right-holders concerned with insecure property rights domestically. Businesses in Ukraine exhibit similar trends. In a systematic study of Ukrainian oligarchs and their possessions around the time of Orange Revolution, John Earle and his colleagues demonstrate that the oligarchs with weaker connections to the new authorities tended to hide control over their firms by turning to offshore mechanisms.

These offshoring practices are not only a prerogative of Russian and Ukrainian oligarchs or those from the Central Asian states. The rich and powerful from Western democracies also engage in “offshoring” their wealth. In the case with western businesses, it is usually done to evade taxes. Businesses in countries with weak institutions follow an additional, defensive logic of asset securitization. The institutional arbitrage opportunities provided by global financial and legal institutions that enable asset-holders to seek out property protection abroad are, arguably, even stronger drivers of this phenomenon than the logic of tax optimization. The option of exiting a weak institutional environment and taking advantage of better working institutions elsewhere helps the asset-holders; however, its implications for the domestic institutions might be problematic. If Albert Hirschman is right, the possibility of exit unavoidably takes away from the potential and the probability of “voice,” meaning that the collective action expected on the part of the right-holders who should be most interested in having good institutions at home becomes less likely.

Understanding the equation of securing property rights in modern times as one involving variables that transcend domestic institutional boundaries adds an additional wrinkle on this issue. Such recognition highlights that the stakes involved in establishing credible domestic institutions in Russia and other post-communist countries concern not only the domestic publics but also all those who might be benefitting or suffering from the money laundered and/or secured in safe havens, whether on tiny
islands such as BVI and Cyprus or global cities such as New York, London, and Los Angeles. It makes one think, for example, whether Brexit in the U.K. might be linked, at least in part, to the dynamics of rising inequality and prices in London’s real estate pushed upward by foreign asset-holders seeking safe havens from countries such as Russia, Ukraine, and Kazakhstan. The growing attention to these issues in the policymaking community resulting from such highly publicized data leaks and scandals such as Panama and Paradise Papers will undoubtedly benefit from an additional academic effort, which is indeed underway.26

Ultimately, Cooley and Heathershaw’s analysis manifests the darker sides of the global market and the international influences on domestic institutions. Just like the state institutions that shape firms’ transaction costs thereby determining their practices, global institutions also play a role in this process. While much of the previous research leans in the direction of exploring the beneficial effects of post-communist countries’ linkages to the West, the Central Asian story uncovers how the practices of global financial and legal institutions could facilitate modern-day corruption and authoritarianism.27 In the experience of Central Asian states, rich and powerful actors’ engagement with global capitalism has been based on principles that privilege capital at the expense of democracy and government accountability. The book by Hilary Appel and Mitchell Orenstein discussed next reveals how and why this has happened in other parts of the post-communist region.

The Drivers of Post-Communist Neoliberalism

The importance of capital in the process of post-communist transformation is the central message that emerges in Appel and Orenstein’s From Triumph to Crisis: Neoliberal Economic Reforms in Postcommunist Countries. These two scholars, who have long studied economic and political reforms in Eastern Europe, inquire into the puzzle of the unexpected staying power of liberal policies in the post-communist region during the 1990s and 2000s. Neoliberal policies went farther and lasted longer than expected in this region, as successive governments chose not only to continue with liberal economic policies prescribed by Western governments and international institutions in the face of adverse popular reactions and setbacks, but also initiated more radical liberal reforms such as pension privatization and flat tax. The question by itself is a highly original one. More often than not, analysts have focused on the benefits of market reforms and ways to encourage the governments in the region to adopt more of them.28 Besides the clash between “shock therapists” and “gradualists” that debated the speed of transition, observations about neoliberal hegemony have usually originated from anthropologists and not political economists.29

The argument developed in the book highlights how post-communist governments faced the challenges and opportunities associated with re-integrating into the global economy. To reform successfully, the domestic economies needed foreign direct investments. Neo-liberal policies, as the authors of this book argue, provided a signaling
mechanism used by the reformist governments to attract foreign capital. Motivated by “a desperate need for capital,” post-communist governments engaged in “competitive signaling” by adopting neoliberal policies. These reforms “worked as signals because neoliberalism had become the hegemonic lingua franca of international economic policy in the 1980s and 1990s” (p. 6). Major international organizations, such as the World Bank, acted as broadcasters of these efforts through their rating systems that translated the reform efforts into a comparative standing of different countries in relation to these reforms (pp. 6–7).

The post-communist governments found themselves in a highly competitive environment on a number of fronts. The intra-regional competition for E.U. accession in Eastern Europe was, for example, focused on policy reforms. International financial institutions (IFIs) and various think tanks also promoted neoliberal reforms, sometimes, as mentioned above, using international ranking mechanisms that measured governmental commitment to create a more attractive investment environment. Besides the World Bank and the IMF, neoliberal think tanks, such as the American Heritage Foundation and the Fraser Institute of Canada, produced indices of economic reforms in the region by studying liberalizing policies. The study shows that the reforms and higher rankings were validated by the inflows of foreign capital up until the 2008 global financial crisis that changed this dynamic.

The book’s focus on competitive intra-regional dynamics and the structural constraints of depending on foreign direct investments for reforming post-communist economies is a long-awaited addition to our understanding of the post-communist transformation process, long dominated by the transition paradigm’s focus on domestic political processes. The universality of its application across the whole of the post-communist region, however, might hide more than it reveals. The competitive dynamics in Eastern European countries “returning to Europe” was arguably different from the ones faced by governments in Central Asia, Russia, and the Caucasus. Eastern European countries were on target to “return” to Europe (even if at varying speed) and integrate into the European Union and NATO. They received considerable support from European countries and, in turn, experienced to a much greater degree the leverage of European expectations in terms of economic and political reforms and elite behavior.30 From the perspective of Western investors, post-communist Eastern European countries such as Poland, Hungary, Czech Republic, Slovenia, and the Baltic states were undoubtedly more attractive places for investing because the investors also knew about these governments’ commitments and goals. It was much more politically risky to invest in Russia or Kazakhstan than to invest in Poland or Latvia.

The bigger message that emerges from this study is that the post-communist governments played by the rules of the global economic game, trying to cater to the needs of the capital in order to develop their economies. The overall story is reasonable. On some level, all post-communist governments faced a similar set of incentives and constraints, but this similarity exists only at a macro-level. The generality of this approach leads to overlooking important nuances and differences in the patterns of interaction with the global economy (and its actors) that could be observed across this
region. Perhaps the most important differences are in the patterns of capital inflows and outflows. Russia and Central Asian countries were afflicted by capital outflows to a much greater extent than Eastern European countries. The exclusive focus on international constraints, however, results in the missing link of domestic agency (i.e., business actors that benefit from liberal reforms domestically). If these important agents and their incentive structure were taken into account along with the differences in institutional environment across the region, then it would have been easier to account for the differences in capital flow patterns and, specifically, the significant capital outflows that afflicted Russia, Kazakhstan, and other countries that were not blessed by their historical and geographical proximity to Western Europe and did not experience the full positive leverage of European institutions and elites.

It is also worth noting that foreign direct investments in many of these countries represented, in fact, the domestic capital that left the country in the first place and returned home as “foreign.” As some scholars noted, sometimes, foreign direct investments are neither direct nor foreign. Various forms of capital round-tripping need to be integrated into scholarly analysis to better understand the dynamics of transformation in the region and the interaction between policies and economic behavior. Some of the countries in the region, including those undertaking major liberalization reforms such as Russia, had to deal with the pains associated with capital flight, even in the face of some of the domestic capital returning as FDI. Including domestic agency (i.e., the interests of economic actors benefitting from liberal economic reforms domestically) would temper the overall analysis, adding an important motivating factor that goes beyond the understanding of constraints governments faced in responding to the conditions of structural dependence on capital.

As Cooley and Heathershaw reveal, policymakers were, at times, the main profit-makers, too. Considering the factor of private enrichment as an important motivator, along with the absence of government accountability, appears necessary both to counterbalance the analytical approach highlighting the structural factors and for the sake of a more rounded story of why neoliberal reforms persisted as they did, contrary to earlier expectations. Popular reactions to neoliberalism and the rising populism around the world then also make sense because they reflect the positions of the losers of neoliberal policies expressing their outrage in the face of growing inequality, corruption, and opulent lifestyles of the winners.

The case of Russia, cited in Appel and Orenstein’s book as a case of radical liberal reforms, such as the flat tax and pension privatization, is illustrative. In 2016, The Economist ranked Russia number one in its global crony capitalism index. The index measures billionaire wealth as a percentage of GDP. In Russia, that proportion had reached almost 22 percent. Ukraine, another post-communist country, ranked number five in that index, with the percentage of oligarchs’ wealth reaching around 8 percent in 2016.

Furthermore, as Cooley and Heathershaw reveal in their book, in Central Asia governments not only played by the rules, but often exploited them to their political and economic benefit: elected domestic economic actors gained massively from liberal
economic reforms. Their motives are part and parcel of the overall equation of post-communist transition dynamics.

Appel and Orenstein emphasize the importance of the 2008 financial crisis for discrediting neoliberalism globally. The question that is not addressed in the book is why the 2008 crisis is so crucial for neoliberalism’s failure and not, for example, the 1997 Asian financial crisis that also had global repercussions? Could the reason be not the degree of its impact in the post-communist region (after all Russia suffered from the 1997 financial crisis in a major way), but its impact on the western countries themselves and, therefore, western disappointment that might have affected the global neoliberal hegemony?

**Conclusion**

Taken together, these books illustrate the communal nature of scholarly enterprise. Pooling these books’ findings together, one arrives at a new place in understanding the complex institutional, political, and economic realities in the post-communist region. In terms of institutions, the big lesson learned relates to the complexity of establishing effective domestic institutions securing property rights. Property rights should benefit all. Why are they so hard to achieve? The reasons are both domestic and global in nature. Domestically, those private actors who benefit from economic activities the most, should, in theory, be most interested in lobbying for more effective institutions at home. However, it is also true that if corrupt institutions at home benefit those connected with the state, then these actors could make profits at home and try to secure their assets abroad in the presence of institutional arbitrage possibilities. Furthermore, the perceptions of and, arguably, the reality of property rights security vary depending on firms’ size, asset mobility, and connections to state officials. These realities imply the presence of an ongoing selection process among economic actors (at least in some countries of the post-communist region) that benefits those actors who have stronger political connections.

In terms of politics, this scholarship brings insights into the rise of populism in Eastern Europe and around the world. What they show, together, is that liberal (or neoliberal) market reforms undertaken in the context of weak institutions might have big social and political externalities expressed by high levels of inequality, growing xenophobia, and social degradation. These books also show that building new political and market institutions in the context of a global economy that privileges the interests of the capital opens new avenues for governments to escape popular accountability because the presence of global exit mechanisms precludes the formation of political coalitions necessary for promoting strong institutions and accountable government. Such processes open the window of opportunities for the political entrepreneurs manipulating popular frustrations and articulating the political backlash against the economic globalization in general and, often, against the western values of multiculturalism, tolerance, and minority rights. The high likelihood of anti-
democratic consequences of the economic reforms that end up privileging the interests of the capital and economic efficiency at the expense of the working and middle classes and the interests of inclusion and equitable development is an unfortunate outcome of these processes.

NOTES


25. Sonin.


