

CONSTITUTIONAL DESIGN AND POSTCOMMUNIST ECONOMIC REFORM

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Most experts now accept that comprehensive market liberalization is a necessary, though not sufficient, condition for the renaissance of post-communist economies. Partial reform programs, while superior in some ideal worlds of theoretical economics, are not a politically feasible alternative. Partial reform of planned economies allows new private owners of means of production to lock in the advantages of initial property allocations by employing their newly won resources to exercise pressures on the political process. In exchange for financial inducements, politicians reciprocate by enacting policies and issuing favorable administrative decisions that will protect existing property owners from the stiff breeze of open market competition. Partial reform thus squanders some of the efficiency gains to be reaped from market based governance structures and instead creates entrenched rent-seeking constituencies (Hellman 1998).

Are constitutional orders causally responsible for government policies to advance market liberalizing economic reforms in post-communist polities? And do such arrangements affect economic performance? Some analysts suggest the existence of a causal relationship between constitutional design and economic reform effort (e.g., Hellman 1996). Polities with powerful presidencies appear to produce less policy reform and to deliver worse economic performance than those with weaker presidencies and outright parliamentary government. Multiple reasons can be advanced to account for that relationship. Independently elected legislatures and executives may block each other's legislative reform efforts, thus producing a stalemate that leaves the economy hanging in limbo. Moreover, in presidential systems legislators may specialize in serving their local constituencies, and thus have every incentive to fight reforms that make life harder for such constituencies. Finally, the president may often have little sustained interest in pushing through economic reforms. If reelection is possible, side payments to powerful supporters and their constituencies may be a more effective and less troublesome way to assemble a winning coalition. Where reelection is impossible, long-term policy considerations may not even make it on the president's radar screen.

In the theoretical literature, the consequences of presidential power concentration, however, are controversial. In contrast to the logic just laid out, other scholars see the very power of executive presidencies as an indispensable vehicle to push through unpopular reforms against recalcitrant special interests and protest movements external to the political decision making arenas (Wade, 1990, 374). This literature makes us optimistic about the choice of strong presidencies. But if constitutions with strong presidential offices are really responsible for insufficient economic policy effort and unfavorable policy outcomes, then the evidence provides another facet for the lingering belief that such institutional arrangements are detrimental to the performance of democracies and

ultimately to the very survival of such regimes (cf. Linz 1994; Stepan and Skatch 1993).

Our paper intends to qualify arguments on either side of the debate and to flesh out a micro-logic that sheds light on the role of constitutional arrangements for economic policy-making in the post-communist world. It probes into two major arguments that challenge a simple linear positive or negative causal linkage between constitutions and economic policies. First, constitutional orders may be *endogenous* to pre-existing configurations of political power and capabilities among contending collective actors in a polity. These conditions may shape *both* constitutional orders as well as economic reform efforts and outcomes. If anything, such "structural" features may dominate economic reform efforts in post-communist countries to an increasing extent, as time passes by since the initial shock of the communist collapse in each polity. Actors will try to find renewed political stability within the constraints they are facing. If institutions are endogenous, strong presidential power cannot be held responsible for either success or failure of economic policy making.

Second, constitutional orders may not have a direct and linear causal impact, but an indirect effect on economic policy-making *contingent* upon certain structural background conditions. Where such conditions are unfavorable to generate a commitment to reform among popular political parties, it may well be possible that great presidential discretionary authority in fact helps to overcome these odds. More reform can be achieved than knowledge of the structural circumstances and the related interests represented in the legislature might lead observers to expect. Conversely, where the circumstances of political mobilization are conducive to reform to begin with, strong presidential power may be a drag on economic reform strategies advanced by legislative parties.

Our empirical analysis finds more support for the endogeneity argument than the contingency claim. If anything, there remains a moderately negative effect of presidential powers on economic reform effort and outcomes. This provides weak support to the camp of skeptics about powerful presidencies. Nevertheless, results pertaining to the contingency claim are sufficiently ambiguous and intriguing to warrant further research.

In the final section of the paper, we extend our analysis beyond the *economic policy reform effort* in post-communist countries toward the *impact* such policies have achieved on the economy, as measured by changes in GDP between 1990 and 1998. Those outcomes, of course, also respond to a host of non-political variables unrelated to structural legacies or constitutional design. As a consequence, we find much weaker effects of political variables on economic outcomes than on reform effort. As before, the results lend somewhat more plausibility to the endogeneity of institutions than the contingency of institutional effects. While unfavorable structural conditions may in fact depress economic activity, the presence of strong presidential powers may at most have the effect of converting a greater part of business activity

into an "unofficial" underground or black-market economy. Whether or not that has long-term consequences for economic recovery in post-communist countries, cannot be determined at this time.

The general message of the paper thus is not to condemn presidentialist democracies too hastily and for the wrong reasons. More broadly, the analysis casts doubt on the current hegemony of institutionalist reasoning in comparative politics and political economy. The independent effect of institutions may be quite modest in many instances and vastly overshadowed by the power configurations that antedate the choice of institutions. Our analysis, of course, presumes important *ceteris paribus* clauses, for example that other constitutional design features than executive-legislative relations, such as the distribution of jurisdictions between national and sub-national governments ("federalism"), the existence of a powerful independent constitutional court or the autonomy of the central bank do not further complicate the relationship between constitutional form of democracy and economic reform. We leave it to others to explore whether the proliferation of veto points in the policymaking process associated with such institutional features modifies or cancels out the results of our investigation.

1. The Nature of Executive-Legislative Relations

Much of the literature on democratic constitutional design operates with a simple dummy variable dichotomy of presidentialism or parliamentarism, with residual categories for arrangements that do not neatly fit into either of these alternatives (semi-presidentialism, premier-presidentialism, etc.). As a minimum set of attributes, presidentialism always includes (1) the existence of a head of state independent of the legislature with (2) an incumbent whose term in office is fixed such that he or she can be prematurely removed from office only in extraordinary situations, which are defined in constitutionally restrictive terms. Additional definitional properties of presidential governance vary in the literature. Some definitions require that a presidential constitution awards the president's office with the prerogative to appoint and dismiss the cabinet (Shugart and Carey 1999; Shugart 1999). In others, presidentialism presupposes considerable executive and legislative powers concentrated in the highest office (Shugart and Carey 1992; Linz 1994). This opens the door to the treatment of constitutional design as a continuous variable, with strong presidentialism with a weak, reactive legislature and pure parliamentarism with an emasculated presidency as endpoints. For purposes of empirical analysis, it is in fact more promising to avoid the discrete alternatives of presidentialism and parliamentarism and construct a sliding scale of presidential/parliamentary powers. A system is more presidential, the more power is concentrated in an office defined by the criteria of independent existence from the legislature and fixed term in office. The causal hypothesis we wish to explore,

therefore, is not the effect of presidentialism on economic reform policies and outcomes, but instead the consequences of a more or less strong concentration of decision making powers in the presidential office for economic policy activities.

Constitutions include all kinds of stipulations that assign tasks to the presidency, but the greater or lesser concentration of powers in an executive presidency relies on a core stock of legislative and executive prerogatives of the presidency in its relationship with the legislature. One decisive element shaping the legislative powers of the presidency is whether the office holder controls reactive means to block changes of the *status quo* initiated by the legislature. These means involve a presidential *veto power* that requires qualified majorities in one or both houses of parliament in order to pass a bill even against resistance by the president. Another decisive element of constitutional presidential powers involves the ability of the office holder to embark on offensive changes of the *status quo* even against resistance of the legislature. The right to impose quasi-laws by decree is the main element of offensive presidential powers. The effectiveness of that right varies according to the jurisdictional areas in which decrees can be issued, the opportunities for legislatures to void presidential decrees, and the time period during which such decrees are valid without explicit legislative approval. Presidents may claim the competence to issue decrees from the constitution itself or based on an explicit delegation of powers normally residing in the legislature to the president for specified policy areas and time periods ("enabling laws") (cf. Carey and Shugart 1998). Further sources of proactive presidential power result from the presidential prerogative to schedule and tailor referendums (with advisory or binding results for the policy makers), as well as the declaration and enforcement of a state of emergency.

With regard to executive prerogatives, the president's powers above all reside in the specification of circumstances under which presidents can appoint or dismiss cabinets (including the prime minister). A further source of presidential power results from the conditions under which the head of state can dissolve the legislature.

In the operationalization of constitutional design features, the development of highly aggregate summary indices to measure the relative power of the presidency vis-à-vis legislatures suffers from the problem of cumulating the values of important and unimportant prerogatives of the office into a single measure (e.g., in Hellman 1996, based on McGregor 1994). We therefore construct a more selective index of the executive-legislative power distribution specifically tailored to the capacity of presidents or legislatures to maintain or alter the status quo of policy-making.

The most important powers of the presidency to advance economic reforms consists in proactive capacities to enact reforms against a recalcitrant legislature by decree, as well as in reactive powers to prevent the passage of anti-reform legislation

by presidential veto with difficult legislative override provisions. We code the relative strength of these powers based on a scoring system developed by Shugart and Carey (1992) and modified by Hellman (1996) and Frye (1998). Each of these two levers of presidential power has a maximum value of 4. That value is reached when presidents are constitutionally empowered to impose decrees in areas without existing legislation that remain valid until the legislature passes alternative bills that become laws (proactive powers), and when presidents can strike down bills passed in the legislature by veto, the legislature either cannot override at all or can override only with a two-thirds majority in its houses (reactive powers). Further presidential power resources to advance economic reform measures are the right to schedule advisory or binding referendums about policy questions. We weight this power, scored by Frye (1998), with a maximum of two points obtained when a sitting president can arrange binding referendums without parliamentary approval.

Executive powers of the presidency to appoint or dismiss the cabinet or to dissolve the legislature have at least indirect influence on the office's legislative power vis-à-vis parliament. We follow Frye's coding again, but weight each of these powers with a maximum of two points. Thus our index attributes more emphasis to the legislative presidential powers rather than the executive prerogatives of the office. Our index awards a maximum score of 10 points on legislative powers and six points on executive powers.

In contrast to indices of executive-legislative power relations, we finally add two points to the presidential power scores where the president is selected by direct popular vote and not indirectly by legislatures or specialized assemblies. While direct election does not add formal executive or legislative powers to the office, directly elected presidents enjoy a prestige of office that may sometimes affect cabinet and legislative reform policies (cf. Baylis 1996). The full index of presidential powers thus runs from zero to 18 points.

When operationalizing presidential powers in post-communist democracies, we must consider timing and sequence. While in most countries the constitutional division of powers has remained stable since the initial years following the collapse of communism, there are three countries in which communist or transitional constitutions prescribing non-existing or weak presidential powers were replaced by new constitutions with strong presidential powers only in 1993 or 1994: Belarus, Russia, and the Ukraine. When accounting for these countries' economic policy reform effort over time in terms of constitutional design, it would be inappropriate to score presidential-executive power distributions purely by the more recent constitutional stipulations of strong presidencies and correspondingly weak parliaments. Reform efforts in these countries early in the post-communist era (e.g. 1994) clearly must be related to the weak executives that existed in Belarus, Russia, and Ukraine at the time. Scores of economic reform effort later on must take the

cumulative effect of inter-temporally heterogeneous institutions into account and discount the statutory strength of presidencies at later points in time by the power configuration earlier on. Particularly if the first phase of reform creates opportunities for lock-in effects (cf. Hellman 1998), for example if new rent-seeking groups emerge from a process of privatization that then block the further development of a competitive market economy, the weak presidency in the initial reform period will have lasting effects. To capture this institutional heterogeneity over time, the cumulative effect of strong presidencies on economic reforms is clearly lower in such cases than in countries that started with strong presidential office.

In Russia, there existed a presidency since 1991 with rather weak constitutional powers (Frye 1997), but *de facto* considerable influence before the introduction of the now valid constitution. After the August 1991 coup, Yeltsin could govern for a while with enabling laws passed by parliament to give him a free hand. Later, in 1993, Yeltsin embarked on a confrontational course with parliament that ignored parliamentary decisions, attempted to trump them with extra-constitutional public referendums, and ultimately subdued the legislature with coercive military powers in fall 1993. Assigning a score to the Russian presidency in the 1991-93 period of exceptional politics is thus a rather arbitrary undertaking. It is not extremely weak, as in parliamentary democracies, but also not dominant, as in many post-communist polities with clear statutes favoring presidential power prerogatives. Given the range of actual scores for executive-legislative relations from 1.25 (very weak presidency in Estonia) to 15.0 in Turkmenistan, we assign an intermediate score of 7.0 for Russia 1991-1994 included. The new constitution passed in 1995 yielded a straight forward power score of 13. To capture the gradual, lagged, cumulative effect of a strong statutory presidency since the beginning of 1994, we let that value increase every year by one point (1995: 8.0; 1996: 9.0; 1997: 10.0; 1998: 11.0; 1999: 12.0).

In Belarus and the Ukraine, the old Soviet Republic constitutions that were still in place until the passage of new statutes fused legislative and executive powers. This meant that the speaker of parliament also wielded executive powers, but was severely constrained by the legislature. In these cases, it is appropriate to score executive power very low in the period until the passage of a post-communist constitution (1991-1994: 1.0). Under the extremely powerful new Belarusian presidency (score 14.5), the cumulative score then goes up dramatically in 1995-6 and then more gradually in every subsequent year (1995: 6.0; 1996: 9.0; 1997: 10.0; 1998: 11.0; 1999: 12.0), whereas in the Ukraine the slope of the cumulative impact of the president's institutional powers are on a somewhat flatter trajectory (1995: 5.0; 1996: 6.0; 1997: 7.0; 1998: 8.0; 1999: 9.0), though a

straight power score would be 10.¹

Our scoring implies that the full effect of powerful presidencies on policymaking in constitutional latecomer polities may not yet be visible by 1999. A cross-sectional analysis of post-communist economic reform effort at the turn of the twenty-first century must take cumulative institutional capacities applied to policymaking into account. Table A-1 in the appendix gives data for executive-legislative capabilities for two years only, 1994 and 1999. But the remaining figures for the intervening years can be inferred from the information given in previous paragraphs.

2. The Dependent Variable: Economic Reform Efforts and Outcomes

In the transition from planned socialist economies to market capitalism, the critical objective is to provide economic actors with incentives to seek personal gains such that their strategies also improve the efficiency and productivity of the economy as a whole. The design of a legal framework that makes property rights and contracts enforceable is a minimum condition to achieve that objective. Beyond these basics, efficiency enhancing economic reform involves a variety of institutional innovations that infuse competition into the relations among economic actors and prevent rent-seeking groups from locking in one-time windfalls of the privatization process. In evaluating these reforms, the experts of the *European Bank for Reconstruction and Development* (EBRD) employ a wide range of indicators on which to rate countries' reform efforts, with a scoring scale ranging from 1 (no reform) to 4 (full market reform). We employ as our dependent variable for economic reform effort the average of the index scores awarded by the EBRD experts to each country on the following six dimensions of reform from 1994 to 1999: (1) price liberalization; (2) trade and capital market liberalization; (3) small scale privatization; (4) large-scale privatization; (5) enterprise legal reform; and (6) banking sector reform.

The EBRD provides these data in its annual reports (e.g., EBRD 1998: 11-35) as well as in a summary data compendium (EBRD 2000). Values for 24 post-communist countries are thus available, with only Azerbaijan, Bosnia-Herzegowina, Mongolia, and Serbia/Yugoslavia omitted. The scores on the individual aspects of economic reform that contribute to our overall index are highly correlated among each other, as well as with a range of related

¹ For the cross-sections using data from 1999, we employ a total composite score for presidential powers in Russia, Belarus, and Ukraine of 11, 8.5, and 7.5 respectively to account for the entire 91-99 period. We believe this is a safe technique, as it biases against our contingency theory predictions that strong presidents in states with poor structural conditions can lead to more reform.

measures of economic reforms. Thus, it does not make much difference for the relative rank of a polity on the economic reform index over time or across space if we delete or add the EBRD's scoring of particular reform components or if we weighted each score differentially according to some underlying theory of what policymakers need to accomplish most urgently in the economic reform process. Our scoring is robust in the sense that plausible modifications do not change a country's rank vis-à-vis other countries or its own experience at earlier and later points in time.

Economic performance we score in two different ways. First, based on EBRD calculations, one can relate the relative size of per capita economic output in each communist country in a given year to the last pre-reform year of 1989. If we set that year equal to 100, how do countries score in 1996, 1997, 1998, or 1999 on an index that takes the cumulative changes into account since the starting year 1989? These values range from below 20 (at one point in civil war ridden Georgia) to well over 110 (in late-1990s Poland). No such figures are available for Turkmenistan, reducing our maximum sample for the analysis of economic outputs to 23 countries.

But in transition economies with uncertain and shifting property rights regimes and uneven capabilities of tax assessment, official GDP figures are notoriously unreliable. This lack of reliability is a direct function of the current state of the legal-administrative framework that may counteract the propensity of economic actors to exit out of the "formal," tax paying economy into an "informal" or "shadow" black market economy. We therefore need a second measure to estimate the likely size of a country's "total" economy that includes both the official and the unofficial economy.

In an ingenious article, Aslund and collaborators (1996) argue that changes in a country's electricity production over time can serve as a gauge of developments in the "total" economy because there is overwhelming evidence for an elasticity ratio in the neighborhood of 1.0 between a country's consumption of energy and its real economic activity. Based on setting electricity consumption in the late 1980s equal to 100, Aslund et al. then estimate the size of the "total" economy in 17 post-communist polities for 1994. Subtracting Azerbaijan, 16 of those are useful to work with in our analysis. Let us just give an example of how data about the official and the total economy can be interpreted. If in country A the "official" economy fell to an index value of 70 by 1996, but the "total" economy stood at 85, then the black market economy expanded since 1989 at the expense of the formal, above ground economy and the latter was more robust to market-liberal retrenchment consequences than the former. This judgment does not permit us to gauge how large the "informal" economy is relative to the formal economy. All it tells us is that the *ratios between formal and informal economy* have changed over time.

Armed with the raw data from Aslund et al. (1996), we developed some projections about the size of the "total" economy

in each country in 1996, including those on which Aslund et al. did not provide data. First, assuming the proportions between official and total economy stayed the same between 1994, after the initial collapse of communism and burst of institutional reforms, and the year 1996, we can employ the 1994 proportions of official and total economy for each country to estimate the size of the 1996 total economy based on our knowledge of the 1996 formal economy. A more questionable procedure, fraught with potential distortions, covers the extrapolation of total economy changes for countries that provides Aslund et al with too little data about electricity consumption to estimate the total economy. Examining their data set, we found that in post-communist countries outside the Soviet Union, the official economy performed marginally worse than the total economy. But in countries emerging from the Former Soviet Union (FSU), total economic activity declined much less sharply than the activity reported in the official economy, signaling a rather brisk expansion of the submerged underground economy relative to the official economy.

For this reason, we calculated separate regressions for the predictive power of official economy statistics for total economic activity in the subsets of non-FSU and FSU countries. We then took the intercepts and regression coefficients of the appropriate equations for countries not included in Aslund et al.'s (1996) projections to inflate the country's official economy figures such as to arrive at a rough estimate of the size of its likely total economy. Based on this operation, we can provide an analysis of post-communist economic performance either for a core set of 16 countries with more reliable total economy data or for a more inclusive set of 23 countries some of which have total economy projections only.

Table A-1 provides data for economic reform effort in 1994 and 1999 (EBRD 94 and EBRD 99). A comparison of these data shows that there is a general upward trend toward reform in that five-year period, but that the big cross-national variance remains about the same between the polities in 1994 and 1999. Thus, *the immediate aftermath of the communist collapse makes the greatest difference for the development of economic reform in the entire hemisphere* (Fish 1998). Table A-1 also presents the estimates for each country's 1996 official economy and 1996 total economy. The EBRD reports permit us to construct annual figures for the size of the official economy very easily for each country. The total economy figures, based on Aslund et al.'s (1996) research are available only for one time point.

3. Constitutional Orders and the Economy I: the Problem of Endogeneity

If executive-legislative arrangements are endogenous to other capacities, endowments, and developments in each post-communist polity, we need a theory that fleshes out a micro-logic of

institutional choice and directs us to appropriate variables as predictors of alternative institutional arrangements. If these background variables correlate highly with institutional arrangements and both background variables and institutional arrangements predict economic reform effort, and possibly outcomes, then we have empirically robust evidence for the endogeneity of the new post-communist democratic institutions.

There are two standard approaches to the study of institutional choice in general and the choice of executive-legislative power relations in particular, a functional and a distributive approach (cf. North 1990 and Knight 1992).² The functionalist approach sees institutions primarily as the result of imperatives of efficiency. Institutional stability results from the experiences actors make with the performance of alternative designs that eventually enables them to coordinate around the superior design, often after a trial-and-error process in which inefficient institutions simply wither in the competitive battle. The rival approach sees institutions primarily as the result of distributive conflicts, so to speak as states of "truce" between antagonistic forces that limit their conflictual relations for an indeterminate, but limited period of time through a codification of rules. Transaction costs make institutions "sticky" and hard to change even in the face of manifest inefficiencies that hurt some or even all of the actors living under the *status quo*.

To account for the constitutional strengths of presidencies vis-à-vis legislatures, however, the micro-logic of both approaches may home in on the same strategic variable with similar predictions: the capacities, skills and dispositions of politicians to build cohesive parties that overcome, in Aldrich's (1995) terms, problems of collective action and of social choice. Democratic institutions, and particularly the choice of electoral system and executive-legislative arrangements, affect that capacity. In anticipation of such effects, political actors develop contrasting preference schedules over such institutional choices. Both theories suggest that where politicians have capacities to develop strong, cohesive "teams," they will bargain for a weak presidency. Conversely, where parties are weak, they will support a strong presidency.

In the efficiency-inspired theory mode, politicians *delegate* power to strong presidential office, if they appeal to atomized, localized constituencies. Under these circumstances, a strong presidency allows them to focus on particularistic constituency service whereas the president who is elected in a national single-

² We are ignoring here normative value and culture oriented theories of institutional choice, as emphasized by North (1990) and Offe (1996). While we would not deny that such considerations matter in many circumstances, for the analytical problem at hand we can do without them. The choice of a stronger or weaker democratic presidency is not a question terribly charged with value conflict.

member district must appeal to the median voter and therefore has greater incentives to deliver collective goods (Shugart 1998).³ The role of the presidency absolves legislators from responsibility for public policies that hurt their special constituencies or undercut their efforts to service special interests, for example when presidents issue legislative vetoes against legislative bills loaded with pork-barrel provisions. Taken together as dual mechanisms of democratic responsiveness, a constituency service oriented legislature and a collective goods oriented presidency add up to an efficient polity because they produce a well-tempered complementarity between special and general interests.

In efficiency-oriented constitutional theory, the existence of strong parties makes a powerful presidency unnecessary. Strong parties rein in excessive particularism and porkbarrel politics. Their internal organization allows them to equilibrate and fine-tune the representation of general and particular interests. Hence, a strong presidency is functionally not needed.

Distributional theories of institutional choice also postulate an inverse empirical correlation between party strength and the strength of presidential constitutional powers. But they criticize the presumed micro-logic of efficiency theory. The latter face a problem of time inconsistency. *Ex ante* legislators may not wish to relinquish any powers to a president that could impede their constituency service, even though, *ex post*, they might wish such correctives had been in place. In terms of empirical process tracing, we are not aware of a single instance in which members of an ordinary legislature would have voluntarily cut their competencies, without having to succumb to external, and usually unconstitutional physical and political pressure, whether of the military or of "street politics" that manifests itself in marches and demonstrations organized by powerful political forces outside the legislature. Or these external actors may impose special constitutional assemblies on a polity that craft a new institutional arrangement.

Both of these criticisms lead us to the heart of distributive theories of institutions: Institutional choice has little to do with efficiency and everything with locking in the advantages of powerful actors. In this sense, concentrated, lasting elites may prefer strong presidentialism in post-communist polities (Easter 1997) or it is the electoral favorite who will always bargain for a strong presidency, provided she has enough control over the bargaining process (Frye 1997). While not necessarily wrong, we find both of these propositions of distributive theories of institution building too shallow in their causality and would like to revert once more to the variable that may unite functional and distributive theorizing: the prospects of strong party cohesion. The argument, then, is that in cases where

³ For a critical summary of arguments in the spirit of delegation theory, see also Kiewiet and McCubbins (1991: 1-21).

powerful political actors are confident they can build strong cohesive parties, they will opt against strong presidents at the constitutional bargaining stage, *even if* they feature the current electoral favorite. The reason is that a strong presidential democracy has a *tendency to undercut party cohesion and to disorganize parties*. The division of powers in a presidential democracy provides all sorts of resources and incentives to the incumbent of the chief executive to play legislators against each other and undercut the self-coordination of parties that could limit the powers of the presidency (Linz 1994; Mainwaring and Shugart 1997).

The alternative bargaining scenarios over constitutional choice thus involve a continuum ranging from instances where there are already one or several strong parties, or at least where politicians have reasons to believe they can assemble such strong parties, to instances where party formation and party prospects are extremely rudimentary. In the latter, individual political personalities *unaffiliated* with parties and *outside* the electoral arena may use their leverage to press for strong presidential democracy. This may be military commanders, whether as members of sitting juntas or as popular military professionals, or presidents and speakers of pre-democratic authoritarian institutions at the beginning of the democratic transition process. In all cases, these individuals have the ambition to continue their rule, but they cannot or do not expect to rely on party organization. Conversely, where party politicians reign supreme, they will do everything to emasculate the presidency in favor of a parliamentary democracy. A strong presidential office involves a risk that their power base, the party as a collective entity, crumbles and disintegrates, as individual politicians aspire to the nomination for the presidency and as sitting presidents employ their power of patronage to disorganize the parties.

This paper is not the place to provide empirical plausibility to the particular variant of distributive theories of constitutional choice over executive-legislative arrangements we have just sketched.⁴ We have introduced rival theories of institutional choice for the sole purpose of allowing us to identify critical variables that would make constitutional arrangements endogenous elements in a causal chain accounting for diverging efforts in post-communist economic reform. The critical variable we have extracted from these theories is the *polity's capacity to generate cohesive party structures*. We now must ask what elements in the experience of communist polities can predict variance in the capacity of cohesive party formation.

First of all, we propose that *past experience with democratic collective organization matters*. Communism lasted for a minimum of forty years, but this is a relatively short time period that collectively acquired skills, capacities, and dispositions

⁴ Kitschelt (1994) provides a not quite satisfactory outline of such an analysis.

tend to survive. Moreover, the existence of such resources at the beginning of communist rule left an impact on the very structure of rule itself. Thus, there was no gap of 40 to 80 years between pre-communist and post-communist politics, but communist rule itself in one way or another incorporated pre-communist experiences.

We wish to distinguish two legacies in very broad brush and more finely divide each into two subspecies.⁵ A number of communist polities had democratic or semi-democratic regimes in the interwar period. Here politicians gained experience in the collective organization of bourgeois, Christian, and peasant parties and some instances even that of socialist and communist working class parties. The extreme case is the Czech Republic that had a functioning liberal democracy with strong working class parties until the advent of 1948. Semi-democracies or mild authoritarianism with some bottom-up collective action existed throughout the interwar period in Hungary, Poland, the Baltic countries and more arguably in Slovenia and Croatia within the framework of the Kingdom of Yugoslavia. The other rough category of pre-communist regimes are authoritarianism permitting little social mobilization and collective political action. This regime form prevailed in Southeastern Europe (Romania, Bulgaria, Yugoslavia) and Russia with its provinces. It reached its extreme in the areas subjected to colonialism on the Russian periphery, primarily in Central Asia. Here the absence of any collective experience with political mobilization made it very difficult for politicians in 1989/90 to even imagine the formation of political parties, let alone bargain for democratic constitutions counting on the emergence of such vehicles of interest aggregation.

Another collinear attribute varies across communist countries and contributes to their pre-communist legacies: state building with professionalized civil service elites, as opposed to a patrimonial, corrupt state apparatus. Where state formation resulted in a professional civil service before the advent of communism, we have indications that also under communist rule corruption and patrimonial rule was relatively less pronounced than in those countries and republics where such institutional practices were absent before communism.⁶ The existence of civil service professionalization makes it difficult for politicians to avail themselves of the state apparatus to pay off constituencies (Shefter 1994). Instead, politicians are then given an incentive to raise resources by building strong party organizations. Thus, there is a causal arrow leading from state formation to the structure of party systems.

⁵ Our analysis builds here directly on Kitschelt et al. (1999), Chapter 1.

⁶ For an analysis of such variance within the Former Soviet Union, see Willerton's (1992) instructive investigation of administration and corruption in several Soviet Republics.

We can rely on at least five empirical indicators that capture the legacies of pre-communist regime mobilization in different ways and imply different layers of temporal causal depth (See Table A-2 in the Appendix for codings). First, there is a straightforward legacies variable that scores full interwar democracies highest for the prospects of post-communist party formation, followed by semi-authoritarian regimes, patrimonial authoritarianism, and colonial peripheries. Second, we may also employ a historically "deeper" variable as a tracer of state formation, namely the prevalence of Western Christianity, Eastern Christianity or Ottoman Islam. Western Christianity was associated with a relatively great distance between church, state, and economy and therefore the earliest development of a professional state apparatus. Ottoman Islam, at the other extreme, featured the greatest patrimonial penetration of all spheres of society by the state and the least formation of a professional state apparatus. Between them, in countries with Orthodox Church rule, the church and all other relevant institutions were also subordinated under the state. This lack of differentiation gave rise to a patrimonial state apparatus that allowed for little bureaucratic professionalization.

Two shallower variables may also trace differences in state formation and interwar political experience. First, current corruption in post-communist countries may be a tracer of patrimonial or professional state formation, not just a gauge of recent and novel practices in each country. This argument relies on the not far-fetched assumption that the pervasiveness of corruption is possible only if actors have well-formed expectations and experiences with a patrimonial state apparatus that develop only over extended periods of time. As empirical operationalization, we rely here on the judgments by business professionals about the relative corruptness of post-communist countries collected by risk management agencies or business journals.⁷

Second, we rely on Steven Fish's (1998) index of the displacement of communist parties in the first post-communist elections. Where the promise of new party formation is great, politicians were able to overcome collective action and social choice problems quickly and already in the first post-communist elections fielded relatively strong contenders against the old ruling parties running in whatever new guises. The success of such new alternatives in the first democratic election is thus a gauge of politicians' capacities and expectations to form political parties.

Another variable that picks up structural conditions for

⁷ We rely on a survey of the *Wallstreet Journal's* European affiliate, *Central European Economic Review*, published in its December 1995-January 1996 issue. The variance in corruption score attributed to different postcommunist countries is very close to that reported by other risk management agencies.

democratic party mobilization is the "distance" of a post-communist country's capital from the closest Western capital in a core country of advanced capitalism (Helsinki, Stockholm, Berlin, Vienna, and Rome, but not Athens or Istanbul). We code this using a five-point scale:

1. 0-250 miles from the EU
2. 250-500 miles
3. 500-750 miles
4. 750-1,000 miles
5. 1,000+ miles.

This variable is an indirect tracer of modern state formation and political mobilization potentials. At the same time, however, that variable may also involve an inextricably prospective element (Kopstein and Reilly 2000). In anticipation of the economic and political benefits of cooperation with Western countries and ultimately integration into the *European Union*, resourceful politicians may want to embrace whatever constitutional arrangements (parliamentarism?) and policies (accelerated market liberalization and the rule of law?) they expect to advance that regional integration process.

It is difficult, however, to calibrate the relative causal efficacy of the retrospective and prospective elements in the geographical distance variable. Both appear to be intimately intertwined. Evidence of cases where policies initially appeared to contradict a retrospective interpretation of the geography variable, however, sometimes revert to the expected pattern. For example, the deterioration of initially vigorous market-liberalizing economic reforms and political democratization in Kyrgyzstan, a country far removed from the Eastern envelope of the EU, may be rendered as the result of the country's geographic distance from the West and of correspondingly low prospects to receive external resources, or as a result of other underlying structural conditions only indirectly traced by geography. The prospective account claims that expectations about Kyrgyzstan's integration into Western regional arrangements were low, amplified by low foreign direct investment in the country and the displeasure neighboring countries expressed at Kyrgyzstan's efforts to cater to the preferences of Western policy-makers (cf. Kopstein and Reilly 2000: 28-30). At the same time, however, a retrospective explanation may account for the same dynamic of policy-making. From its early democratic and market-liberalizing opening onward, Kyrgyzstan never developed even the beginnings of a structured party system capable of displacing the old communist elites. The country thus lacked the mobilizational resources to lock in economic reform. Moreover, the presence of a patrimonial state apparatus always invited politicians to build clientelist networks that undercut the market liberal reform effort.

Religion, interwar political mobilization, state formation, distance, and results of the first post-communist election as structural background for economic policy-making are empirically all interrelated at levels of correlation exceeding .70 (cf.

Kitschelt 1999). As a consequence, it is impossible to employ techniques of multivariate statistics to untangle the causal efficacy of each structural variable for economic reform. We can rely, however, on a historical timeline that tells us, up to a certain point, what came first and what later and thus in what causal ordering diverse variables tracking structural conditions for party formation and constitutional choice might have appeared. For each historical link, we can lay out the patterns of bargaining situations that would influence the next step in political regime evolution.

Since the empirical differentiation of these variables is difficult and we are really interested in this paper only in how structural is conducive to economic reform, taken as a package, interacts with constitutional design and post-communist economic policy in Eastern Europe, we performed a factor analysis of the values each of our 24 post-communist countries has on these variables in order to find a common underlying factor that captures all of them (see table 1). As expected, already the principal components analysis yields an overwhelmingly powerful first factor on which all variables load at .85 or stronger.⁸ In light of this robust result, it is not necessary to take the factor analysis to the next stage of factor rotation.

TABLE 1 ABOUT HERE

Instead, we define the unobserved factor variable underlying the five observed concepts as our *master variable of political-economic structure*. Favorable structural conditions for programmatic party formation have high negative values on that variable. Nine countries have such favorable conditions with factor scores ranging from -1.48 (Czech Republic) at the extreme through Hungary (-1.26), Poland (-1.25), Slovenia (-1.18), Estonia (-1.11), Latvia (-1.07), Slovakia (-1.07) to Lithuania (-.96) and Croatia (-.90). Then follows a middle group with mixed to mildly unfavorable conditions (Macedonia -.12; Bulgaria -.08; Russia +.21, Romania +.21; and Albania +.31) and a tier of countries with substantially less favorable conditions (Ukraine +.45; Moldova +.60; Armenia +.64 and Georgia +.65). Finally there is a set of countries with extremely unfavorable structural conditions (Belarus +.91; Kyrgyzstan +1.02; Turkmenistan +1.31; Kazakhstan +1.34; Uzbekistan +1.39; and Tajikistan +1.44).

We are now ready to return to the problem of endogeneity. Simultaneous high correlations between structural conditions of post-communist countries, their choices of legislative-executive constitutional design, and their economic reform efforts would indicate that constitutional designs, taken by themselves, are endogenous to the political power configuration at the point of communist collapse, but reflecting a variety of deeper layers of political-economic power structures. In other words, holding constant for structural background conditions by dividing our

⁸ It merits emphasizing that we did not constrain the factor analysis to yielding a single-factor solution *a priori*.

sample into countries with unfavorable, mixed, or favorable structural background conditions should reveal that there is no linkage between presidential powers in the polity's democratic constitution and economic reform effort (lines a, b, and c in figure 1). Only when examining the relationship between constitutional form and economic reform effort for the entire pooled set of countries does it appear that constitutions matter for the policy outputs (line d in figure 1). But that is a purely compositional effect due to the aggregation of the cases with differing structural background conditions into a single sample (line d in figure 1).

FIGURE 1 ABOUT HERE

Of course, in the empirical world the endogeneity of constitutions is unlikely to be perfect. There are always unexpected and (at the systematic level) inexplicable idiosyncrasies of particular cases that sometimes promote outcomes off the equilibrium path. For example, Poland has overall very good conditions for cohesive party formation (see values in table A-1), but here the bargaining process resulted in a relatively powerful presidency in spring of 1989. The unique and nonreplicable condition here was that the Polish collective actors involved in the democratization of the country were still bargaining under the shadow of the Brezhnev interventionist doctrine. In this environment, even democratic opposition members thought that the installation of a strong presidency, granted to be controlled by the communist party, with full discretion over the "power ministries" (defense, interior, and judiciary/police) would be necessary to please the Kremlin and to prevent a Czechoslovakia-1968 type occupation of the country by its "brother countries." Consistent with our theoretical argument, however, ever since 1990 most political parties represented in the Polish Sejm, however, fought to weaken the institutional foundations of the presidency in constitutional revisions of 1993 and 1997. Given the incremental nature of the post-collapse constitutional reforms, however, these pressures to weaken the presidency never permitted the legislative parties to make a clean break with presidentialism. Polish democracy thus is moving forward against the backdrop of interwar political alignments calling for strong party cohesion, but democratic institutions rooted in the fading Cold War era and undermining features of party integration that are hard to change once conditions of incremental "normal politics" prevail. Thus, due to an accident of historical timing, Polish democratic institutions end up with a substantially more powerful presidency than the bare bones theoretical core of the argument we explored in this section would permit.

Inversely, there is at least one case of democracy where structural conditions were unfavorable to cohesive party formation, but where politicians nevertheless chose a parliamentary system of governance: Bulgaria. Here it is important that the incumbent and barely reformed communist party advocated a strong presidency and would almost have implemented it, as in

Romania, Moldova, Georgia. As a pure accident of history, film evidence that the communists' sitting president and popular candidate for a presidential election had called for the mobilization of troops against the demonstrating population in December 1989, dismantled that candidate in the mass media and led the communist leadership to abandon a strong presidency in its bargaining tactics. The post-communists then promptly changed their tune on constitutional design and supported a weak presidency. Also in Bulgaria, the empirical constitutional design thus is inconsistent with predictions based on the structural conduciveness of the democratic polity to cohesive party formation. In turn, the persistence of such institutions may, over longer periods of time, support the formation of cohesive parties where they would have otherwise been impeded by historical background conditions and new institutional design.

Setting outliers like Bulgaria and Poland aside, we do expect, however, a robust relationship between conditions for strong partisan structuration and constitutional bargaining outcomes. Furthermore, we expect that *this association becomes stronger over time*, as struggles over constitutional designs may go through multiple rounds of confrontation and bargaining. They help actors to reduce uncertainty and discover their "true" long-term political and economic interests that then impinge upon the process and the results of bargaining over constitutional choice. In some countries, there is a protracted "trial-and-error" process of constitution making in which the dust only settles gradually.

In a parallel way, one could argue that *economic performance measures*, such as economic growth of the "official" and of the "total" (market) economy, may reveal the endogeneity of constitutional polity designs. Once we hold constant for background structure and legacies, as well as for a number of other non-political controls on economic growth, constitutional design may evidence no net effect on economic performance.

4. Constitutional Orders and the Economy II: The Problem of Contingency

The endogeneity argument essentially postulates that executive-legislative relations are everywhere causally irrelevant, once we hold constant for the background structural conditions (retrospective-path dependent as well as prospective, policy-dependent) that affect a country's capacity to promote systematic, cohesive party formation. Even if the endogeneity argument explains a great deal of variance in country's market reform efforts and actual market success, executive-legislative design may have, at the margin, policy and economic effects. In the first place, they may be hard to detect because these effects are small. In the second place, these constitutional design effects may vary *contingent upon* the structural background conditions for cohesive party formation.

Let us return for a moment to the difference between

functionalist and distributive theories of democratic institutions. That difference concerns not only the micro-logic of institutional choice, but also the expectations over the consequences of institutions once they have firmly established themselves. Both functional and distributive theories see no contingent effects. Gleaned from observation of American democracy in the United States, functionalist theories see strong presidents as protectors of public goods and thus as proponents of policy measures to keep rent-seekers at bay and instead opt for "inclusive" goods in Olson's (1982) sense. Presidential power and divided governments may even overcome situations of stalemate between executive and legislative institutions more easily than often assumed (Krehbiel 1998). From this perspective, a strong presidency is better than a weak presidency for market liberalization and economic growth ($P_s > P_w$) and presidents always have more concern for the delivery of collective goods than pork barrel oriented legislatures ($P > L$).

Extending the functionalist argument, strong executive presidents may even pursue collective goods enhancing public policies if they do not have a reelection incentive because they are constitutionally barred from running for a subsequent term. First, presidents are the focal agents expressing and protecting national interests in the international arena. They are also the targets of pressure from international institutions, such as the World Bank and the International Monetary Fund, as well as the heads of Western governments, to improve their economies through collective-goods oriented policies, such as trade and financial liberalization. Second, military leaders may pressure civilian presidents to adopt collective goods oriented policies or face military coups. The military is concerned with the nexus between wealth and power. The inability of a country to produce sufficient wealth sooner or later inhibits its capacity to extract resources for the accumulation of military power. Often, as in much of Latin America, the military is the only non-patrimonial and non-clientelist component of the state apparatus that could confront rent-seeking practices (cf. Roquié 1987: 101-5).⁹

Contrary to functionalist theories of institutional choice with a strong focus on the American presidency as the success story, distributive theories usually build on illustrations from Latin American and Southeast Asia and present presidentialism mostly as a failure. In this view, it does not deliver collective goods that result in economic wealth and political stability. Such scholars tend to argue that strong presidencies, particularly when paired with weak and divided legislatures, will deliver more democratic instability (Mainwaring 1993; Linz and Valenzuela 1994; Przeworski et al. 1996). The causal arrow linking regime form and

⁹ Of course, when in political power, the military often had to accommodate to the very same clientelist networks it initially sought to displace, as is illustrated by the Brazilian case (Hagopian 1994).

regime collapse may go through the hypothesis that systems with divided government and plenty of potential for blackmail and stalemate in the legislative decision-making process will yield less economic reform effort and consequently less economic growth.¹⁰ In other words, a strong presidency is always worse than a weak presidency ($P_S < P_W$) and parliamentarism tends to have more policy capabilities than presidents ($P < L$).

Maybe both functionalist and distributive perspectives are inaccurate because they do not take contingent relations between constitutional form and structural background conditions into account. Recently, Shugart (1999) has advanced a contingency based argument about the effects of constitutional design with a strong developmentalist, modernization theoretical flavor. Countries with low per capita income, great income disparities, and strong ethno-cultural divisions produce more fragmented party systems that undermine the governability of democratic politics. Here in poor countries (P) a strong presidential executive (P_{S-P}) may help as an antidote against a weak and rent-seeking legislature in the pursuit of reforms with collective goods character ($P_{S-P} > L_P$), whereas in polities with less party system fragmentation and more wealthy (W) favorable socioeconomic background conditions presidential executives (P_{S-W}) do not effectively promote collective goods orientation when compared to the legislatures ($P_{S-W} < L_W$).

While we appreciate the spirit of Shugart's contingency argument, the underlying theoretical justification deserves some revision and greater micro-logical specificity. It is not party system fragmentation, per se, or poverty and income disparity that contribute to inefficient governance and the dominance of rent-seeking interests in legislatures. The contingent effect of strong presidencies hinges on the linkage structure of political parties to electoral constituencies. Are these linkages based on selective incentives and a relationship of direct exchange (votes/support for patronage, state resources or regulatory advantages: clientelism) or on programmatic promises for social reform or status quo preservation? It is true that clientelist circuits of accountability and responsiveness are more likely in poor, less developed countries, but clientelist arrangements can also be found in some advanced postindustrial democracies (Kitschelt 2000). Also across Eastern Europe, clientelism is not strongly linked to the economic development of a polity. Such linkages tend to be more likely where state structures have developed in a patrimonial rather than in a professional-bureaucratic fashion and where prior experiences with democratic mobilization enable

¹⁰ For the sake of argument, we ignore here the finding that scholars have not (yet?) discovered any empirical association between strong presidential institutions, policy blockage, and regime breakdown (Cheibub 1999). "Divided governments" often deliver benefits to a range of citizens and are not automatically economically detrimental in the current economic environment.

political actors to solve problems of collective action and social choice through cohesive programmatic parties (Kitschelt et al. 1999).

Presidents may always have the disposition to employ patronage and selective incentives to instill the cooperation of legislators with their agenda. Yet where party-constituency linkages run through clientelism (C), the propensity of legislators to pursue such linkages (L_C) may be even stronger than that of presidents. Legislators want more resources to feed clientelist networks than presidents may find prudent and necessary. Hence, in such cases the relative public goods orientation of presidents and legislators is $P_{S-C} > L_C$. In systems with strong cohesive programmatic parties (PP), by contrast, the reverse relationship may be true ($P_{S-PP} < L_{PP}$). Legislative parties here tend to check presidents' efforts to assemble parliamentary majorities for their favorite projects through clientelist giveaways. Moreover, cohesive parties have a longer time horizon than presidents. Because they are "larger than life," their ambitions are not limited by the time horizon of individual politicians. As a consequence, they can embrace economic policies much more readily that may deliver benefit in the longer run rather than the current electoral term. Cohesive parties often are long-term reputation builders, whereas individual politicians, presidential candidates and incumbents included, operate with a much shorter time horizon.

Comparing across systems with different conditions for the public goods orientation of strong presidents vis-à-vis legislatures, however, it may nevertheless be the case that the collective goods orientation of presidents in countries with programmatic party competition is greater than that of presidents in politics with clientelist constituency relations ($P_{S-PP} > P_{S-C}$). The contrast between the systems is primarily that legislatures have very different capacities to build parties and coalitions to produce collective goods.

So far, we have compared only more parliamentary or more presidential democracies with party systems based either on clientelist or programmatic citizen-politician linkages. In a number of post-communist countries, however, constitutions endow presidencies with different levels of power and capabilities, but they are semi-authoritarian or authoritarian regimes. All of these politics also exhibit conditions of political mobilization and state formation that foster clientelist citizen-politician relations. In our contingency theory, then, the source of collective goods oriented policy innovation is likely to be a strong presidency, not the legislature, whichever form it may take ($P_{S-C} > L_C$).

We would argue that the prevalence of clientelist linkages together with (semi-)authoritarian politics increase the chances that the source of collective goods oriented policy reform could only be a strong executive presidency. Because in an administratively regulated public sphere, legislators do not have to fear the "audience costs" (Fearon 1994) of having their

activities exposed in the mass media, they may pursue their clientelist practices in a less inhibited and circumspect fashion than in democracies. They are less likely to feel locked-in to more reform promises, as regimes with higher audience costs. All responsibility and accountability focuses on the authoritarian leadership. Hence authoritarian leaders in fact often do respond to public opinion and public performance evaluations (Ames 1987). Where they have sufficient institutional capabilities, then, they may press for a higher production of public goods rather than clientelist favors. For authoritarian polities with clientelism (C-A) to produce any sort of public goods, a strong executive presidency (P_{S-C-A}) may therefore be even more indispensable as a counterweight to rent-seeking, clientelist politicians in the apparatus and formal legislatures of the repressive state (L_{C-A}) than in democracies (D) with clientelist arrangements. Of course, authoritarian states may be so shot through with clientelist rent-seeking that even extremely strong presidential powers may achieve less production of collective goods than in democracies with clientelist linkages (hence $P_{S-C-A} < P_{S-C-D}$).

We can now summarize our argument about the contingent relationship between constitutional design of executive-legislative relations and the propensity of polities to enact economic reforms that deliver collective goods (economic growth) in a few hypotheses illustrated by figure 2. Figure 2 is constructed to incorporate the endogeneity relationship between structural conditions, institutions, and economic reform.

FIGURE 2 ABOUT HERE

H 1: Where structural conditions are conducive to clientelist networks of citizen-politician linkage *and* where the political regime is (semi-)authoritarian, there will be weaker support for market liberalizing economic reform than in any other regime form. But strong presidencies may advance that momentum at the margin (line a).

H 2: Where structural conditions are conducive to clientelist networks of citizen-politician linkage *and* where the political regimes is democratic, strong presidential democracies may deliver somewhat greater market liberalizing reform than parliamentary systems. But structural conditions constrain the reform effort regardless of constitutional design (line b).

H 3: Where structural conditions of democratic politics are conducive to programmatic citizen-politician linkages, governments will push market liberalizing reforms further than elsewhere. Strong presidencies are either irrelevant or, at the margin, harmful for these polities' reform propensities (line c).

As in figure 1, a clearly negative association between presidential powers and economic reform effort is the compositional effect of examining the bivariate relationship without taking contingencies into account (line d).

Whether economic reform effort is also implemented and actually generates more economic activity, net of non-political

intervening variables, is an open question. It is even more open whether constitutional design could possibly contribute to alternative patterns of economic growth. If there is a contingent relationship between constitution and growth, we expect that under unfavorable structural conditions with a strong propensity toward clientelist politics, strong presidencies might boost economic performance. Strong presidentialism may here also reinforce the rule of law and bureaucratic regulation, thus reducing the size of the informal "shadow" economy. Where structural conditions are good for programmatic parties, by contrast, stronger presidential systems may actually depress economic growth and/or increase the informal economy by blocking institutional reforms.

5. Economic Reform Effort: Testing For Endogeneity and Contingency

Our distributive argument about the choice of democratic institutions postulates that countries with good conditions for programmatic party mobilization, i.e. with pre-communist episodes of democratic mobilization and with a bureaucratic state tradition, should choose constitutions with fewer presidential powers. For 1994, this expectation is confirmed by a moderately robust correlation between our structure and presidential power variables ($r = .66$; $N = 24$) (figure 3). The main outliers that make the relationship less than perfect are Bulgaria and Poland where idiosyncratic events intervened in the choice of constitution design (see above) and the absence of constitutions in Belarus and Ukraine. By 1999, the correlation between structural conditions and presidential power is considerably stronger due to the choice of constitutional designs in Belarus and Ukraine that place a strong executive presidency at the center of the polity ($r = +.79$; $N = 24$).

FIGURE 3 ABOUT HERE

The high collinearity between structural conditions and presidential powers, of course, rules out any direct multivariate statistical test of the proposition that presidential powers wash out as an insignificant variable, once we enter structural conditions as a predictor of economic reform effort into the equation. The strong circumstantial evidence favoring the causal priority of structural conditions can thus be built only on the *temporal sequence* in which these variables are aligned. Structural conditions clearly precede constitutional choice. Moreover, both for 1994 and 1999 structural conditions are better predictors of

economic reform effort than executive presidential strength. Figure 4 shows the close fit between structural conditions and economic reform effort already in 1994.

FIGURE 4 ABOUT HERE

The first row of table 2 presents all bivariate correlations of structural background conditions and of executive strength with economic policy reform effort for all 24 post-communist countries in 1994 and 1999 (probabilities in brackets). We see here the very robust, and for 1994 almost perfect, relationship between structure and policy effort. In 1994, executive strength, by contrast, has a moderate association with reform effort as long as several countries had "out of equilibrium" constitutions (most notably Belarus, Russia, and the Ukraine). By 1999, constitutions in several of these 1994 outlier countries have become congruent with their structural background features and now the correlation between executive strength and economic policy reform is considerably higher. The explained variance jumps from 33.5 percent to 47.7 percent.

TABLE 2 ABOUT HERE

In order to test the robustness of these bivariate correlations, we added several controls in multivariate regressions. A simple "developmentalist" argument might be that richer, more advanced post-communist countries opt for more market liberalizing reforms. In order to capture that, we introduced the per capita GDP in 1985 as well as the share of GDP generated by agriculture as predictors of economic reform effort. Whether entered individually or together, these variables wash out as predictors of economic reform effort, when either structural background conditions or constitutional design are incorporated on the right hand side of the model. Another counter-hypothesis might be that foreign direct investment (FDI), measured as percent of GDP, boosts economic reform. Also this hypothesis fails when executive power or structural background are competitors to explain economic reform. We yield a similar result when we operationalize the time each polity had to enact economic reforms since the first democratic election (with data taken from Hellman 1996 and added to with each subsequent year). Again, that variable has no net effect on economic reform. In all these multivariate regressions with controls, the structure variable is always a more powerful predictor of economic reform effort than executive power, thus confirming once more the causal priority and prerogative of that variable.¹¹

¹¹ We do not show all these regressions here. Results can be obtained from the authors. The adjusted R-squares for the regressions with executive power are .394 to .455, declining with the loss of degrees of freedom as insignificant controls are added, those for regressions with background structure vary

In order to test the contingency argument that the concentration of presidential powers has different effects on reform efforts in countries with conditions structurally conducive to reform than where conditions are bad, ideally we would employ a multivariate model in which structure and executive strength were independent variables, but accompanied by an interaction term in which unfavorable structure and executive strength have the highest value. The contingency argument then would be confirmed if the following pattern emerged: favorable structural background depresses reform, executive power concentration is neutral or depresses reform, yet the combination of unfavorable structure and executive power concentration significantly boosts reform. Unfortunately, multicollinearity among the right hand side variables again prevents us from estimating the most appropriate statistical model.

Instead, let us subdivide the total set of 24 post-communist countries into those with more or less favorable structural conditions and explore whether constitutional design has an impact on economic reform in one or the other direction, as measured by bivariate correlations between constitutional design and economic reform for each subsample. Rows 2 through 7 in table 2 present these figures, where states are grouped from A-1 to B-2 depending on structural conditions and regime type.

Our contingency theory predicts that countries with unfavorable structural conditions and lacking democracy should show the greatest potential for a positive association between strong presidential powers and economic reform effort (A-1 narrow). Based on Freedom House indices of political and civic freedom, we have isolated five unambiguously authoritarian post-communist countries, all of which also have unfavorable background conditions, with factor scores ranging from .91 to 1.44. But here in 1994 presidential powers had a rather strong and almost significantly depressing effect on economic reform ($r = -.723$). By 1999, however, the presence of diverse constitutional powers made no difference any longer for economic reform effort ($r = -.022$). If we define authoritarian postcommunism more broadly (A-1 broad) and throw in intermediate cases between authoritarian and democratic governance (Kyrgyzstan, Moldova, Russia, and the Ukraine), then the relationship between executive powers in the constitutional design and economic reform is always negative and almost significant ($p < .10$). We cannot empirically find a verification of the sort of contingency argument advanced above.

This conclusion is also supported by the A-2 which provides the relationship between executive strength and reform initiatives for democracies with unfavorable preconditions. Presidential strength has clearly become a detrimental condition

between .617 and .653. As in the bivariate regressions, structure explains much more variance in economic reform effort than executive power.

for economic policy reforms by 1999 ($r = -.64$; $p < .014$). Also the aggregation of all countries with unpromising structural preconditions, whether democratic or not, does not yield a result more favorable to our contingency argument (A-3 States). The same applies to the aggregate of all democracies, regardless of whether they have favorable or unfavorable conditions (B-2 states). Nowhere is a strong presidency a force that clearly boosts economic reform.

Do the associations between presidential powers and economic reform reported for the broadly authoritarian subset of post-communist countries (A-1 broad) and for democratic countries with unfavorable conditions (A-2) provide at least weak support for Hellman's (1996) hypothesis that presidential powers, net of structural background conditions, do hurt economic reform? We think not for at least two reasons. First, technically, the subdivision of countries into those with favorable and unfavorable structural conditions throws away a great deal of information about those conditions that may result in a statistically artificial relationship between executive strength and economic reform in these subgroups.

Second, and substantively, the fact that broad authoritarians or democrats with unfavorable conditions show Hellman's expected relations is driven by just two observations, Belarus and Russia. Russia engineered reforms under a weak presidency in the early 1990s, something that leaves its mark in a rather low score for presidential power compared to the rest of the group with unfavorable conditions, even when a composite executive power score for the entire period is assigned to that country (see Table A-1). Belarus retracted from economic reform, as its presidency became stronger. Our account of these developments show that we cannot limit ourselves to a purely cross-sectional analysis of the relationship between institutional design and economic reform but must try to map the dynamics of reform throughout the 1990s. This analysis, of course, is handicapped by data and technical constraints of statistical estimation. In a cross-sectional analysis, political and economic structure, enshrining historical experiences and pathways of economic and institutional development, thus trumps institutional design and short-term forces as determinants of the considerable variance in economic reform effort among post-communist polities.

Yet we should not commit ourselves to a historical structuralism too readily. While history and structural premises are important, they are not destiny. We wish to show this by focusing on the "learning effort" in the realm of economic reform each country made between 1994 and 1999. The learning curve can be captured by the difference between each polity's 1994 economic reform scores and its 1999 scores. For a full structuralism to apply, even the pathway of learning, not just the relative placement of polities in cumulative reform effort, should be determined by structural constraints. But this is evidently not the case.

Table 3 groups the "learning effects" in the economic reform arena that can be extracted from table A-1 in the appendix by countries with favorable structural conditions (group A) and countries with moderately unfavorable conditions (group B) and countries with very unfavorable conditions (group C), rank-ordering them also internally by degrees of structural conduciveness to reform. A positive value in the "changes in economic policy reform" category indicates a policy shift toward market liberalism between 1994 and 1999, a negative value a shift toward more state intervention.

TABLE 3 ABOUT HERE

The democratic polities with the most favorable structural conditions in group A begin the five-year period in 1994 already with on average rather high reform scores (3.22 out of a possible maximum score of 4.0). They can thus improve only marginally and do so uniformly. Their average scores go up until 1999 to 3.56 and the changes show very little inter-country variance (standard deviation = .13). Group B and C, by contrast, show rather different patterns. In both groups with less favorable conditions, there are wild variations in learning effort, even though, on average the entire set of 15 countries marches toward market liberalism. On average, from 1994 to 1999, these countries add +.66 points to their economic liberalism score, moving them from a low reform score of 1.95 to an average score of 2.61. They change faster than group A, but they also have more leeway to change. But note the great standard deviation of the change rate (.66) within groups B and C. Whereas the average rate of moving toward market liberalism is twice as great as in groups B and C as in group A, the standard deviation of economic policy learning is five times as large in groups B and C.

The structural argument can explain why in 1999 the fifteen disadvantaged countries still have an average reform index (2.61) that is lower than the reform index the advantaged group achieved already in 1994 (3.22). The structural argument also explains the uniform improvement in group A. What the structural argument cannot explain, however, is two observations. First, why do groups B and C, on average, move toward greater market liberalism? Second, why is there so much variance in new economic reform effort within groups B and C between 1994 and 1999?

We call the general movement toward market liberalism the Fukuyama effect, after that author's controversial article about the "End of History" (Fukuyama 1989). With the fading away of the grand alternatives to liberal-democratic modernity, fascism and communism, and the failure of any new non-liberal model of societal development to emerge, even the most recalcitrant authoritarians and dirigistes cannot help but embrace some elements of market liberalism. The Fukuyama effect is something a model of structural diversity cannot account for. The importance of trend developments, unaccountable for by structural determinants, can also be driven home by a pooled time-series of

the twenty-four countries' reform efforts between 1994 and 1999.

As we have more countries (N) than time periods (T), we follow James Stimson's advice in employing the Least Squares with Dummy Variables or Covariance Model to sort out our between unit effects. In this model, dummies were created for A groups to capture those countries with inauspicious structural conditions and B1 to capture the countries with favorable structural conditions. The dummy variables estimate a fixed effect for each unit (Stimson, 1985, 922).

TABLE 4 HERE

Two different dependent variables are employed in this analysis. CHANGE, which is used in models 1-3, measures the year to year change in EBRD scores beginning in 1995. EBRD, which is used in models 4-7, measures the absolute score between 1994 and 1999. Table 4 shows the a sample of the regression using executive strength as the key causal variable, though similar results were found with structure.

Using change as the dependant variable, we find no significant effects for either executive strength or structure. The most important variable in this series of regressions is time, which has a negative impact. This makes logical sense, as we can expect that states, which have been reforming for a longer period have time, have fewer room for more improvement. Following the Fukuyama Effect, this also implies that inevitably all states are drawn toward more reform. GDP 85 which measures the starting point, from which these countries began has a significant and positive effect in two of the models. The between unit effect of the A3 and B1 states is not significant either when we use dummies and suppress the constant and interact the group dummies with the key causal variables.

Next, we used total EBRD reform as the dependent variable and ran it against both key causal variables and control variables in an autoregressive procedure with one lag dependant. As is evident by the low Durbin Watson scores in the table, running this particular specification without the lag dependant can lead to major problems of serial correlation. The new Durbin Watson in the corrected specifications reflects the improvement, as it is closer to 2. Using a lag dependant, however, decreases the standard errors and improves the significance of other variables. Because our theory is that countries receive an initial advantage at the beginning of the reform period from their structural endowment, we believe that controlling for prior reform makes sense. The EBRD measure builds upon an absolute measure of reform. At each year, a country with high previous reform, will have a head-start in the new year. To assess the impact of our individual variables, it was necessary to control for this change.

Time is once again significant in all the regressions, further illustrating that states who had head starts will begin to approach the ceiling of reform, while states who had slower

starts on reform will begin to narrow the gap. Executive strength proves significant in only the specifications without the lag. Interestingly, in these specifications, the between unit effect has a significant influence on reform over time. We find that both dummies measuring initial structural conditions have positive effects on reform, though differing in magnitude.

Interacting the executive strength variable with these dummies leads to an interesting finding. In states with poor structural conditions, executive strength tends to hurt reform over time. This result is driven by the steadily increasing presidential powers in Ukraine, Belarus, and Russia. In states, with beneficial structural conditions, there seems to be a positive effect of presidential strength. By adding a dummy for Poland in a another regression, we found that this effect was primarily driven by the unique circumstances of the Polish Presidency and the startling improvements of Poland in the past four years.

In sum, the most important finding of this time series is that time since the first independent election is the most consistent predictor of reform over time. Model 7 also confirms our belief that structural variables are more likely to have a significant impact on reform than executive strength. This result is clear when EBRD is used, because the specification models reform at least indirectly through the starting year. When the change variable is used, however, this result washes out.

Neither structural determinism nor the Fukuyama effect can account for the tremendous diversity of learning liberal market reform between 1994 and 1999 within the group of polities structurally not conducive to market liberalism. We have at least two ad-hoc explanations to offer that account for much of the great outliers in the group, both in terms of cases that make rapid leaps toward more market liberalism as well as those that are extraordinary laggards.

Three of the countries in group B, all of which are more or less democracies, experience a major government turnover in the face of disastrous policies run by the incumbents, Bulgaria (1998), Romania (1997), and the Ukraine (1996). In all three cases, the new governments undertake a major push toward market reform, even though, to the delight of structuralists, by 1999-2000 it is fair to say that these efforts have fizzled out for the time being. In group C, there is also one polity with a major government change, and that is Belarus. Here, however, the change is toward authoritarianism and leads to a decisive backlash against market liberalism after a period of stalemate in the first half of the 1990s. Three countries in group B (Moldova, Armenia, Georgia) go through government changes that nudge them toward more market liberalism, but are also blessed by another important development promoting domestic reform, the end of internal wars and/or military conflicts with neighbors. In group C, the containment of civil war in Tajikistan also generates a surge in economic reform.

This leaves us with two major outliers to the trend patterns in groups B and C, Russia and Kazakhstan. What happens in both of them is a sort of "regression toward the mean" of the entire cohort in the period from 1994 to 1999. By 1994, Russia had the highest economic reform score in groups B and C. This came on the heels of extraordinary rule, a coup attempt in August of 1991 and subsequently an enabling law that allowed a cabinet to enact reforms without legislative approval and at least initially only limited need for the president to make patronage inducements. By 1993, these reforms essentially had ground to a halt and could not be revived in the subsequent six years until 1999. By contrast to Russia, Kazakhstan in 1994 was one of the laggards of reform even within the groups with unfavorable structural conduciveness for reform. It had a reform score of only 1.33, compared to the group average of 1.95. By 1999, it had regressed back to the mean, with a score of 2.88, compared to a group mean of 2.61.

Overall, then, our analysis of market-liberalizing reform effort in post-communist polities yields four results. First, constitutional design is by and large endogenous to structural preconditions. We cannot confidently attribute causal efficacy to constitutional design for economic reform strategies based on our results. Second, the power of structural determinants in fact increases over time, as polities gravitate toward constitutional arrangements that are closer to the "equilibrium" between their power configurations, in terms of resources and capabilities to form cohesive political parties, and institutional rules that reinforce party team politics or individualist and clientelist competition (See figures 4, 5, and 6 for a visual representation. Third, structuralist arguments cannot explain a general tendency in all countries, even those with the most unfavorable starting conditions, to embrace market liberalism. In that regard, we have invoked what we call the "Fukuyama effect." Fourth, structuralism leaves considerable degrees of freedom for voluntaristic learning within each group of post-communist countries. The settling of (civil) wars and the change of rulers offer opportunities to embark on new economic reform initiatives that cannot be explained by structural conditions in a straightforward fashion.

6. Accounting for Economic Performance

This paper is not the place to test, let alone develop a general model of economic growth building on the insights of the corresponding economics literature (cf. Barro and Lee, 1994). Empirical growth models require a broad variation of economic and political boundary conditions over time. This is obviously not the case in a sample consisting of only post-communist countries and covering a very brief time period. With few exceptions, all of them qualify as "middle income" economies. Tracking their performance in the immediate aftermath of the demise of communist planning systems makes them share a large number of variables that would qualify as explanatory variables of economic growth in

more diverse samples of countries: levels of male and female secondary schooling, change in share of population under the age of 15, or the presence of political upheaval. Other conditions Barro and his associates incorporate as independent variables accounting for growth in their long-run models constitute for our short run analysis of post-communist economic performance components of the dependent variable: the size of government consumption, the security of property rights, the pervasiveness of black markets as a measure of market distortion, rates of capital investment, and possibly even life expectancy may be good examples. A number of such variables are to some extent tracked by our index of economic reform or even the underlying structure variable. Because we are examining economic contraction and growth over a short time period, we cannot and need not build non-recursive growth models in which some variables appear both on the left and the right hand side within a system of equations (for the latter, see Barro and Lee 1994: 276-85).

Given these restrictions of the sample countries, politics, as captured by institutional and structural legacies, constitutional design, and economic reform effort, is obviously not the only source of variation in the economic performance of post-communist countries. Plausible sources of diversity are the countries' reliance on imported energy (worse when more imports), their level of industrial sophistication (higher 1985 GDP/cap means more skills/resources to adapt to market economy), and the share of agriculture in GDP (greater shares dragging down economic flexibility through high fixed asset investments and a labor force with low human capital investment). Furthermore, greater FDI inflows should improve the economy. Finally simply the passage of time should lead to a better economy, as countries emerge from the initial shock of system change in the immediate aftermath of the communist collapse. For all these reasons, the relationships between ultimate economic performance and our focal three variables capturing policy causes and outputs --structural background, institutional design of executive powers, and economic reform effort-- are likely to be less robust than those among these three variables themselves.

An additional complication must be taken into account. The "shock" of communist collapse that precipitated more or less economic reform effort was destined to drive down economic output initially. Yet the pathway of recovery works out differently, depending on the theory one is inclined to embrace. The theory of "shock therapy" expected a sharp drop and a rapid recovery within a few years that would allow comprehensively reformed economy to exceed those with partial, incremental reform. A time-counter since the first post-communist election, whether free or not, should thus have a positive, significant effect on economic performance, if the dependent variable (economic output as percent of pre-reform output) is measured five to seven years (1994-96) after the first countries initiated their reform efforts. In fact, the interaction between extent of reform and elapsed time should be significantly positive (time * EBRD reform

index). If, by contrast, "partial" theories of reform are correct, then less reformed countries should have experienced a similar trajectory of economic decline and recovery as high reformers and the interaction term should be insignificant.

Because of these complications of intertemporal performance and of non-political forces that affect economic performance, we do not expect a strong gross direct bivariate relationship between our strategic variables (structural conditions, executive power, economic reform) and economic performance. Nevertheless, simple correlations of each country's level of measured GDP in 1996, as a percentage of their 1989 performance, with our focal variables reveal the expected pattern. All correlations are in the correct direction. Nevertheless, the positive impact of background structure on economic performance ($-.649^{**}$) is greater than the negative effect of constitutional power concentration in a strong presidency ($-.414^*$), which is not even significant. Strongest, however, is the positive linkage between economic reform effort, as measured by the EBRD index, and economic growth ($.692^{**}$).

Presidentialism reduces economic performance, as does an inauspicious structural background. These effects are pretty strong, as long as we focus on measured official GDP. Correlations get markedly weaker when our dependent variable is Aslund et al.'s (1996) "total GDP" that also includes an estimate of the underground, informal economy. Executive power in 1994 is then a very weak predictor for total GDP ($-.234$). Background structure still performs considerably better ($-.557^{**}$). Thus, very strong presidentialism, on balance, is an intervening variable that may help to explain the conversion of some social production from the formal economy into the informal economy. Strong executives tend to undercut the rule of law and create an environment of uncertain property rights that makes people invest in the informal economy. Hence, strong presidential executive democracy leads to comparatively lower per capita GDP in the formal economy, whereas the informal economy evades the efforts of states to extract more taxation.

What happens to our focal variables when we estimate economic performance data for 1994/99 in multivariate equations taking these controls into account?

TABLE 5 HERE

In this series of regressions, we use both GDP and total GDP and three key causal variables (executive strength, structure, and EBRD) to explain economic reform. With both of the dependant variables, we find that the expected signs of the bivariate correlations remain the same, but significance is not maintained on the executive strength variable when controls are added. Nevertheless, both structure and EBRD are significant predictors for reform, negative and positive respectively.

Energy balance, time, and FDI from the Barro model are clearly the best predictors of GDP growth, with significantly positive results across all regressions. These are useful for

confirming the original parameters of the Barro model. It also reaffirms the motto of Dr. Peter Lange's Political Economy of Growth course, that economic growth is best explained by economic variables, with political variables offering marginal impact. In his words, such statistical expressions are political economy with a "small p."

After running, the standard regressions, we add the additional control variable composed of the interaction between EBRD reform and time. We find that in all equation, this variable has a significant positive impact on growth, thus demonstrating the efficacy of "shock therapy." The strong negative impact of structure on growth is telling, as is its decreased impact when the EBRD-Time interaction is added. We take this as evidence that structure influences reform initially and then continues to influence reform by working through the total EBRD reform score.

One final time, we can make an effort to explore the contingent effect of constitutional designs by splitting our sample of countries into those conducive or not conducive to reform, in this instance the impact on economic outcomes. In countries with unconducive structural conditions for policy reform, we expect presidential power concentrations to make a positive contribution to economic performance. As before, we find very little evidence for the contingency causal mechanism. In states with poor initial structural conditions (A3), we find that executive strength actually has a negative impact on both growth and total growth (-.143 and -.085 respectively), though both are insignificant. Moreover, executive strength has an insignificant, but positive effect on states with good structural conditions (.297 and .129). Running a dummy for Poland demonstrates that the strong positive impact is influenced by the unique conditions of Poland, because the R-squared approaches 0.

Contingency arguments also appear to fall apart when we try to assess the consequence of institutional design for the difference between the development of formal and total economy. The hypothesis is that in countries with structurally unfavorable conditions for reform the black market economy shrinks less or grows relatively faster than in countries with formal economics. We can capture the uneven speed of formal and total economic change by subtracting the formally measured per capita GDP from the informal, total economy of goods and services. Again, we can then explore the extent to which alternative constitutional designs in different subsets of countries contribute to the final outcome, we cannot find evidence for the hypothesis.

7. Conclusion

Our efforts to account for post-communist economic market-liberalizing reforms and their impact on economic recovery yield a number of interesting positive and negative results. The fact that all of Eastern Europe and Central Asia were communist at one time does not account for the variance of economic conditions and

pathways across this cohort of countries over time. Structural configurations of state power and civil mobilization appears to do a reasonable job at throwing light on the variance of post-communist economic output and outcomes. Institutional design of democratic polities is an important intervening variable, but it is endowed with relatively little independent determinative power.

Institutional design is endogenous to a considerable extent, as it is highlighted by the strong bivariate correlations of executive partisan powers with structural preconditions. Net of structural conditions, variance in presidential power does not yield any systematic contingent effects on economic reform efforts and outcomes. Hellman's (1996) claims about the causal efficacy of constitutional design cannot be supported by our analysis.

The only semblance of weak support for a theory that attributes causal efficacy to exogenous democratic design may derive from the differential direct, bivariate effect of presidential power concentration on formally measured and total GDP, whereas structural conditions have uniform effects on both measures of output. Maybe a more presidential post-communist regime shifts economic activity out of the formal economy into black markets.

Whether or not this is a correct inference remains to be investigated further. Moreover, it is unclear whether this relationship would affect economic growth and welfare in the long run. The effects of executive power concentration are neither consistently negative for economic reform effort and outcomes nor do such effects vary contingent on the country subgroup's structural conditions. More specifically, we could not confirm Shugart's (1999) contingency theory that in polities with unfavorable structural conditions, signified by an incoherent party system, a strong presidency is the only way to push collective-goods producing economic reforms and thus ultimately stimulate economic growth and welfare. Upon closer examination, Shugart's own evidence in favor of the hypothesis, drawn from a wider set of polities than our sample, is rather weak, if not squarely contradicting his initial hypothesis.

Our results certainly do not increase confidence in the correctness of the hypothesis. We deplore our negative findings concerning a contingency theory of democratic design effects for the political economy. We wished we could have found support for the theory because it is elegant and has a convincing micro-logic. At the same time, our findings do not buttress a hermetically determinist, structural model of post-communist reform. When examining the learning curve of economic policy-making from 1994 to 1999 across the cohort of post-communist countries from, we discover that the variance in new reform initiatives in that period could not be captured by the central theoretical variables accounting for differential levels of reform in a cross-sectional approach.

Government turnover and the beginning or end of civil wars

are crucial forces shaping differential processes of learning market-liberalizing reform in the second half of the 1990s (Signified by the Gs and Ws in Table 3). If we wish to draw normative policy inferences from our analysis, this finding allows us to conclude on an optimistic note, at least as far as our own values are concerned. Structural determinism accounts very much for how the political economies of post-communist countries are ranked relative to each other in reform effort and outcomes up to this point. Nevertheless, we detect a dynamic of learning that may help disadvantaged polities and laggards out of their predicament and enable them to catch up with countries on more auspicious pathways.

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