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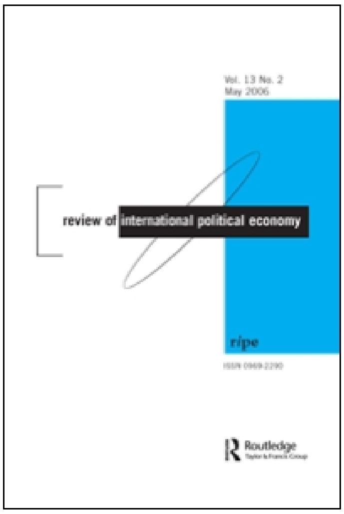

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Making market democracies? The contingent loyalties of post-privatization elites in Azerbaijan, Georgia and Serbia

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ABSTRACT

Neoliberal market reformers stress the 'market building instincts' of private owners to justify rapid forms of property transformation under illiberal political conditions. Private owners demand the institutions of the self-restraining state to protect property from various forms of expropriation and to enforce contracts. Legacy theorists counter that under illiberal political conditions, economic insiders are more likely to capture the benefits of privatization programs and then seek exemption from the rule of law rather than application of it. We employ a 'path contingency' approach to show that under illiberal, competitive authoritarian conditions, privatization recipients and other private economic agents are unlikely to demand the basic institutions of market democracy. Yet, this is by no means a stable set of affairs. Political inequality and its attendant rent-seeking behavior will likely delay or distort growth and can contribute to economic and political instability. Political crisis may follow as regimes face societal frustration and energized, united political oppositions. Such crises are moments of uncertainty and flux. Crises provide private economic agents in particular with an opportunity to reconsider their ties to an illiberal regime. This paper examines these propositions during illiberal regime crises in Serbia, Georgia and Azerbaijan.

KEYWORDS

Democracy; markets; postcommunism; privatization; Azerbaijan; Georgia; Serbia.

INTRODUCTION

Had postcommunist reformers of the 1990s been able to establish the institutions of market democracy with the wave of a wand, many would have

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done so. Instead, they faced a range of challenging policy making environments that confounded even the best intentions. In all but a handful of central European countries, the collapse of communism did not effectively unseat the old order. Rather, it presented its beneficiaries with opportunities to remake it in distinctly illiberal ways. As a result, crony capitalism and competitive authoritarianism (Levitsky and Way, 2002) now dominate much of postcommunist Eurasia.

It has been difficult to change this state of affairs. This paper is thus an investigation of pathways away from illiberalism during the second decade of postcommunism. It will focus, in part, on privatization, since 'market liberals' advocate medium and large scale privatization as a partial remedy to illiberal politics. Privatization, they believe, creates private agents who reorder their firms to maximize profit and demand the institutions of market democracy that make reordering easier. These assumptions justify policies that facilitate the emergence of private economic agents even under the most illiberal of political conditions.

'Legacy theorists' are more skeptical. They argue that postcommunist privatization and related policy choices are partially *endogenous* to broader postcommunist patterns of change. Privatization choices reflect, and are at best catalytic to, politics set in motion during the collapse of communism. In competitive authoritarian regimes, privatization choices and other modes of creating private economic agents simply register the illiberal direction of a postcommunist trajectory. They may settle internal distributional battles, but they are unlikely to change the illiberal nature of politics.

Such critiques imply that competitive authoritarian regimes are structurally fated to remain illiberal. We employ a 'path contingency' approach to show ways in which private economic agents matter. We agree that under illiberal, competitive authoritarian conditions, privatization recipients and other private economic agents are unlikely to demand the basic institutions of market democracy. Illiberal political regimes leave even well-intentioned economic agents little choice but to survive through rent-seeking and deepened ties with the government.

Yet, this is by no means a stable set of affairs. Political inequality and its attendant rent-seeking behavior will likely delay or distort growth and can contribute to economic and political instability. Political crisis may follow as competitive authoritarian regimes face societal frustration and energized, united political oppositions. Such crises are moments of uncertainty and flux. Agents must reconsider their interests and possibly challenge the institutional means for realizing them.

Crises provide private economic agents in particular with an opportunity to reconsider their ties to an illiberal regime. They will be most likely to do so where the sources of wealth from the economy depend on the decentralized transactions of numerous independent agents spread across multiple sectors. They will be least likely to do so where the sources of wealth come primarily from resource rents controlled by the incumbent regime. Where the regime distributes these rents through identity-based networks, adhesion to the regime is likely to be intensified.

This paper examines the plausibility of these propositions with brief analyses of regime crises in Serbia, Georgia and Azerbaijan. We find little evidence of allegiance switching in Azerbaijan – the only petroleum dominated economy in the sample. Economic elites who organized around the country's two dominant clans remained a robust pillar of support for the Aliyev family during its moment of greatest political crisis. The need to retain access to rents derived from the regime-controlled oil sector proved a powerful glue for an economic elite already bound by powerful identity ties.

In resource poor Georgia, the regime openly dispensed the right to prey on economic activity. Without oil to fuel patronage, the economy suffered accordingly. In the parliamentary election crisis of 2003, a range of economic elites openly challenged the incumbent regime. A few supported challenger Mikhail Saakashvili's pledge to build a competitive market democracy. Others merely distanced themselves from the president. Clans played a role in Georgia's distribution of patronage, but without centralized oil rents to bind them to the regime, they too joined in the scramble to preserve their interests in an uncertain present.

Similarly in Serbia, where patronage networks outside of the ruling family were largely based on self-interest rather than identity, Milosevic's business elites hedged their bets with the opposition and in some cases sought explicit guarantees that they would retain access to their state-secured rents. This simply delayed by several years a confrontation between those seeking genuine political liberalization and the beneficiaries of the structures created during the Milosevic years.

I. ON THE ORIGINS OF POSTCOMMUNIST MARKET DEMOCRACY

This section reviews three approaches to liberalizing postcommunism's competitive authoritarian regimes. 'Political competition theory' provides evidence demonstrating the positive role that liberal political institutions and competition play in driving market-oriented economic change. Yet, scholars have less to say about how societies should obtain liberal institutions where they did not emerge following the collapse of communism. Similarly, 'legacy approaches' emphasize the importance of prior conditions favoring the development of some variant of market democracy after the collapse of communism. However, they too fail to offer much insight into how to liberalize where these conditions do not exist. Finally, 'market reformers' emphasize the ability of policy makers to empower economic agents who will then push for liberal change. Specifically, they predict that privatization policies create agents who will demand liberal market institutions and a self-restraining state. Yet, practice shows that unless surrounded by supporting liberal institutions, post-privatization agents are quite likely to behave in illiberal ways.

Structures thus appear to have the upper hand. Are we to conclude that competitive authoritarian regimes are fated to remain illiberal? At the end of this section, we argue for a 'path contingency' approach that emphasizes the latent potential of private economic agents to challenge the regime during regime crises. We develop this argument further in the next section.

Political competition theory

Early postcommunist reformers feared that democratic societies would reject technocratic 'blueprints' replacing socialism's cozy but unsustainable social guarantees with limited government and a competitive, atomistic market (discussed in Bunce, 1995; Crawford, 1995; Hall, 1995; Nelson, 1993; Przeworski, 1991). Today, by contrast, 'political competition theorists' make a convincing case that postcommunist market building policies are more likely to work where they are rooted in robust democratic political processes and institutions. Political competition approaches contrast reforms under liberal democracy with the results achieved by their illiberal democratic or 'competitive authoritarian' alternative.

Steven Levitsky and Lucan Way define competitive authoritarianism as a regime possessing the formal democratic institutions of a liberal democracy but suffering from 'frequent and serious' violations in the rules of the game producing 'an uneven playing field between government and opposition'. Nevertheless, elections, parliaments, courts and the formal political and civil freedoms and the rights that go with them create limited 'arenas of contestation . . . through which opposition forces may periodically challenge, weaken, and occasionally even defeat autocratic incumbents' (2002: 53–4).

In postcommunist Europe's comparative authoritarian regimes, low political accountability and competition enabled political insiders to manipulate economic reforms behind a formal screen of dysfunctional democratic institutions. Elites preserved their interests by blocking some reforms and 'capturing' others in ways that guaranteed they would be the primary beneficiaries of the economic rules of the game (Hellman, 1998; Hellman and Kaufman, 2001; IMF, 2003).

Political competition helps more liberal democratic regimes work through a number of reinforcing mechanisms. Social agents have the freedom to expose various forms of state capture while populations have the institutional mechanisms to do something about it (Hellman, 1998). In addition, alternation between ruling parties helps dislodge stakeholders in economically dysfunctional policies. Electoral turnover allows newly empowered parties to weed out failed reforms and possibly adopt new reforms that stand a better chance of working (Orenstein, 2001). Strong party competition may induce incumbent ruling elites to constrain themselves with formal monitoring and oversight institutions (Gryzmala-Busse, 2006). Robust horizontal accountability (O'Donnell, 1994) is also important. Unless checked by countervailing institutional and societal forces, even nominally pro-reform executives are likely to do more damage than good (Manzetti, 2003; Orenstein, 2001).

Political competition theory argues that the best way to fix an ailing postcommunist economy is *not* to urge leaders to adopt the 'correct' economic policies, but to liberalize the political system and let a well-informed, empowered society choose its particular economic reform path and its own mix of market institutions. This is not necessarily good news for those who would impose a specific form of free market liberalism on postcommunist societies. Democratic societies naturally 'choose' from a range of possible reforms. Depending on the character of local postcommunist politics, institutional outcomes have ranged from social democracy to market liberalism.

These are important conclusions. Yet they beg the question of liberal institutional origins: how do competitive authoritarian regimes acquire liberal institutions that promote the healthy forms of political competition and socially rooted forms of economic reform?

Legacy approaches

Legacy approaches do not provide an answer. They focus on the constrained set of options facing postcommunist political and economic reformers and they remind us that simply exhorting autocrats to *choose* liberal democracy is likely to be as ineffective as urging self-dealing autocrats to adopt sound economic reform. Liberal political and economic institutions need a delicate combination of conditions to emerge and these are often harder to 'engineer' than functioning markets.

Postcommunist legacy theorists emphasize above all the need for a viable opposition to the incumbent communist party at the moment of communist collapse (Bunce, 1999; Jowitt, 1992; Vachudova, 2001, 2005). Other key inherited factors include a reform-oriented communist party with a plausible future in pluralist politics that can provide a credible left alternative to the first postcommunist government (Grzymala-Busse, 2002); a favorable 'western' geographical location (Kopstein and Reilly, 2000); discredited military establishments (Bunce, 2003); popular enthusiasm for a decisive break with the communist past (Garton Ash, 1990); an equally popular desire to 'rejoin' Europe (Appel and Gould, 2000); and fewer inherited ethnic divisions that illiberal incumbents can exploit to justify exclusive politics (Mansfield and Snyder, 1995; Vachudova and Snyder, 1997). These legacies made possible a genuine replacement of incumbent elites in a founding election – a crucial step in the consolidation of a liberal reform-oriented trajectory (Fish, 1998).

While all these elements played a role in the formation of more liberal forms of democracy in postcommunist central Europe, the broader point is that history must bestow robust political competition offering viable political alternatives (Vachudova, 2005: 13). This is an important corrective to the political competition approach. Most of postcommunist Eurasia simply lacked liberal pluralism's prerequisite factors. Viable oppositions failed to consolidate which frequently left 'a political vacuum that allow[ed] the old rulers to conduct the transition as they s[aw] fit' – highlighted by the ability to control 'the terms of the first elections' (Vachudova, 2005: 19). In some cases, incumbent elites also manipulated ethnic resentments and fears to 'demobilize' potential opponents and justify limited opposition access to meaningful channels of information, political decision making, and economic transformation decisions (Gagnon, 2004).

Market reformers

While useful in explaining the origins of postcommunist market democracy, legacy theory borders on over-determinism (Johnson, 2001). It also fails to explain how to build democratic preconditions where they don't exist. Postcommunist 'market reformers', by contrast, are optimistic about the ability of agents to design and impose efficient market institutions – albeit ones of their own choosing (Blanchard and Layard, 1991; Lipton and Sachs, 1990; Przeworski, 1991; Sachs, 1994). In practice, however, market reformers pay attention to the problem of illiberal legacies. Reacting to the Russian reform experience of the early to mid-1990s, Andrej Shleifer and Daniel Treisman emphasize the need for *strategic action* to liberalize markets in illiberal political environments. By combining policies that 'expropriate' rents from incumbents where possible with policies that 'compensate' them where not possible, they can build a coalition in favor of liberalization. Progress based on compromised reforms is a preferable and pragmatic alternative to quixotically attempting to impose a full reform package on resistant actors (Boycko *et al*., 1995; Bunce, 2003; Shleifer and Treisman, 2000).

Market reformers particularly favor policies like privatization. They argue that regardless of their origins and mode of acquisition, private agents who are securely in control of an asset will manage it to seek a profit (for evidence, see Boycko *et al.*, 1995; Blanchard and Layard, 1991; Lipton and Sachs, 1990; Shleifer and Treisman, 2000: 36). Market reformers further anticipate that privatization will contribute to liberal institutional development. They expect that private owners fear the state's ability to expropriate private wealth without due process (Bates, 2001; Ferejohn, 1993; North and Weingast, 1989). Privatization recipients should thus seek to limit the state's arbitrary authority and eliminate the red tape and attendant corruption that erode their profits. Privatization thus generates private entrepreneurs who reform enterprises and demand the institutions that underpin western market democracies (Friedman, 1962). In addition, regime elite eventually come to realize that if they do not reassure local and foreign investors with the basic institution of the self-restraining state, investment capital will hide or flee (Lindblom, 1977; Przeworski, 1985).

Armed with the argument that private owners will demand liberal economic *and* political institutions in the long term, market reformers justify compromising liberal political principles in the short term in order to privatize quickly. This logic justifies decisive action when the structural arrows point in an illiberal direction. Indeed, even where political institutions are far from liberal and there is no apparent means by which to make them so, the logical policy response is still to privatize by any means possible (Boycko *et al.*, 1995).

Path contingency

Emerging from the legacy school, Juliet Johnson's 'path-contingency' approach (2001) casts doubt on the market reformers' optimistic voluntarism even as it attempts to escape the determinism of the legacy approach. Following the market reformers, she argues that moments of 'extraordinary politics' (such as the crisis that accompanied the collapse of communism) provide policy makers with the freedom to negate the binding effects of legacies (256; see also Balcerowicz, 1995). Policy choices are thus as relevant an independent variable as structures. Unlike 'path dependency', in which in the absence of some exogenous shock, structures reproduce themselves *ad infinitum* (Thelen, 1999), path contingency shows how policy choices combine with inherited legacies to shape new outcomes – albeit not always in ways policy makers intend.

Johnson argues that the weight of legacies differs 'fundamentally' according to whether a policy choice is 'passive' or 'active' (Johnson, 2001: 257). 'Passive' policy choices, such as privatization and state deregulation, change actor incentives. 'Active choices' transform the state institutional framework. Institutional legacies weigh most heavily on passive policy choices because legacies determine the relative positional power of key actors and establish the institutional context in which actors function. By contrast, the efficacy of 'active' institution building depends on a state's capacity – measured by consensus, consistency and credibility (261).

Johnson's broader point is that while critical junctures provide an opportunity for new policy departures, '[f]reedom of choice . . . does not necessarily mean freedom of outcome' (257). This insight directly engages those market reformers who moved into postcommunist policy making positions in the early 1990s. From the perspective of path contingency, they employed structure-cognizant 'strategic' policies – often securing insiders' cooperation through some form of compensation – while neglecting efforts to build the state capacity necessary to adopt key *active* institutional reforms. Without active reform, there was little to compel insiders to engage in competitive market behavior. The results are privatization outcomes that bore little resemblance to those originally desired.

Empirical work backs this up. First, privatization choices are strongly aligned with legacies. In a study of privatization prior to 1997, Gould (2003) finds that insiders controlled the dominant mode of privatization in virtually all illiberal postcommunist cases. Numerous liberal countries opened their dominant mode of privatization to outsiders, but only where the transition had discredited the incumbent communists. Where reform communism existed prior to the collapse, postcommunist left parties retained the political capital to shape the dominant mode of privatization. Akos Rona-Tas concurs that '[t]he preferred methods of privatization depend[ed] on the position of social groups achieved by the time of the collapse' (1997: 226).

Second, if dominant stakeholders in the illiberal status quo control the privatization process, they are also likely to control the 'active' design of related policy making institutions. This is crucial. The endogeneity of privatization choice to regime type would be irrelevant were the new owners to restructure their firms and pressure the government for additional reform. Yet the evidence suggests that the beneficiaries of illiberal privatization programs use their political monopoly to ensure diverse forms of economic monopoly (Barnes, 2006; Gould, 2003).

This should not be surprising. Adam Smith repeatedly warned that 'merchants and manufacturers' would 'conspire' towards monopoly. Smith was vague on political context, but the emphasis on conspiracy reminds us that open deliberation is often the enemy of monopoly. In competitive authoritarian regimes, there are often too few checks on the ability of economic agents to obtain *guarantees* of success (Hellman, 1998).

Moreover, with few political checks against self-dealing public policy, regime opponents are unlikely to prevent politicians and businessmen from colluding to 'privatize' public institutional goods like the rule of law or public economic management. Economists Karla Hoff and Joseph

Stiglitz (2004) conclude that uncertainty about the neutrality and efficacy of the legal regime gives privatization recipients an incentive to strip assets. The ability to profit from incomplete or 'partial' (Hellman, 1998) institution building gives privatization recipients a stake in *prolonging* a market-inefficient institutional environment.

Timothy Frye similarly demonstrates that a legally questionable privatization process undermines the new property rights' long term security. Privatization recipients can reduce this legitimacy deficit by both using their property well and providing public goods (Frye, 2006). Yet, absent a proactive management and a business friendly environment, we would expect owners to 'cash in' on the cheaply won assets through various forms of asset stripping. Stiglitz and Hoff (2005) have found little evidence that legally questionable privatization programs lead to effective restructuring.

In sum, if privatization is not supported by concurrent 'active' construction of market enforcing institutions, the attempt to restructure agent incentives towards market rational behavior is likely to fail. As Johnson summarizes, 'Under the wrong conditions, passive institutional design, instead of engendering improved institutional frameworks, founders on the rocky shoals of the old ones' (2001: 260).[1]

Despite these critiques, path contingency aligns with market reformers in expecting privatization to transform the nature of agents and endow them with new logics of action. While the creation of economic agents under illiberal conditions may indeed reinforce illiberal structures in the short term, it also injects new agent-driven dynamics into the politics of competitive authoritarian regimes. As we shall see in the next section, these logics may yet contribute to regime transformation.

II. BREAKING WITH THE ILLIBERAL PRESENT

Are illiberal regimes fated to remain illiberal? Levitsky and Way argue that the mixture of 'democratic rules and autocratic methods' characteristic of competitive authoritarian regimes 'creates an inherent source of instability'. As instability mounts, incumbents face a 'competitive authoritarian*dilemma*'. Repressing competition is costly, both domestically and internationally. Yet permitting competition may lead to the loss of incumbency or worse (Levitsky and Way, 2002: 59).[2]

This inherent tension has an economic component that the authors do not fully specify. As noted above, privatization recipients and other economic agents exploit illiberal political conditions to *guarantee* a return. Competitive authoritarianism's embattled 'democratic rules' will subject much of this self-dealing to public discussion. Yet, its 'autocratic methods' will prevent society from doing much about it. The result is underlying tension that explicitly involves the regime's economic beneficiaries in any regime crisis.

Crises are moments of increased uncertainty (Blyth, 2002; Rona-Tas, 1997). They blur conceptions of 'friend and foe', enable periods of 'wide open collective action' and shifting elite alignments (Ekiert and Kubik, 1998: 571; but see Tarrow, 1994: 86). Economic agents no longer take their cues from the illiberal structure. They must make successful independent strategic choices to survive. In short, while privatization under illiberal conditions often fails to build market democracy, it nevertheless instills agents with new logics of action. In crises, their actions become less predictable. They are, to misappropriate Eva Belin's (2000) terminology, 'contingent market democrats'.

There are a number of reasons why economic agents who benefit from the client–state relationship might, in a crisis, support an opposition that promises to build the basic institutions of a market democracy. First, patronage obligations are likely to carry both political and economic costs. Failure to deliver political goods may lead to various forms of expropriation or worse. Second, the local legal and economic environment may drive important clients and suppliers elsewhere. Third, the insider appropriation of the state's intersections with economic activity will likely worsen macroeconomic fundamentals and distort the structure of the economy – penalizing genuine entrepreneurialism. In short, economic elites might use a crisis to support an opposition promising better managed, law-governed business environment.

Switching might also occur for political reasons. Economic elites will fear being caught on the wrong side of a regime transformation. By hedging their commitment to the regime or by crossing lines, they may improve their position with the successor government. Switching allegiances might also buy them an 'indulgence' for the 'original sin' of illegitimate privatization (Frye, 2006) and 'purchase' continued insider access to public policy and legal goods. Allegiance switching thus does not necessarily reflect a 'conversion' to the principles of a market democracy.

The rule of law and the resource curse

The literature on the 'resource course' provides a number of reasons why oil rents and authoritarianism might reinforce each other. Illiberal resource rich regimes have both motive and means to repress their oppositions. Moreover, repression will do less harm to the economy. Unlike manufacturing and service based economies, most resource wealth cannot flee or hide, because it is literally in the ground.

In addition, since the value of resource wealth *is fixed* by world markets rather than *realized* through efficient exchange, a predictable system of law is not necessary to create wealth. Incumbent political and economic elites may see the rule of law as a liability rather than an asset. The law gives political outsiders avenues by which to challenge their incumbency and their privileged access to resource rents (Easterly, 2006: 125; Fish, 2005: 127; see also Fish, 2005; Jensen and Wantchekon, 2004; Ross, 2001; Sachs and Warner, 1995).

It is also quite likely that the ability to market a strategic resource – like oil – to the rest of the world will reduce the international price incumbents pay after an authoritarian crackdown on their opponents. Nor are oppositions as effective in resource rich competitive authoritarian regimes. They easily fragment over strategically offered opportunities to share in the division of resource rents. Recent studies show that opposition unity is a crucial prerequisite for a liberal electoral outcome (Howard and Roessler, 2006). So, this too bodes poorly for liberal change. In sum, where oil is present the regime has fewer incentives to restrain itself *vis* society than elsewhere.

Resource rich regimes are not structurally fated to become illiberal. There is no reason established liberal democracies cannot handle the distributive pressures introduced by the exploitation of lucrative resources. Yet where the regime is already illiberal, the introduction of resource rents is unlikely to make it less so.

Above all, the *rentier* nature of wealth creation helps resolve the tensions underlying Levitsky and Way's 'competitive authoritarian dilemma'. The price of losing power is higher, oppositions are weaker and more easily fragmented, the costs of an authoritarian crackdown are lower, capital is less prone to flee, and the international backlash will be muted. Under such conditions, the competitive authoritarian regime is more likely to choose greater authoritarianism than to attempt its chances with liberalism.

These are powerful incentives for privatization recipients to adhere to the regime. In some circumstances, economic elites might switch sides should they feel their political chances are better with a rival elite group, but there is likely to be little pretense of seeking to create the fundamental institutions of a market democracy.

The role of patronage networks

This discussion bears relevance to the literature on clan and non-clan patronage networks. Kathleen Collins defines a clan as an 'informal organization comprising a network of individuals linked by kin-based bonds'. Clans are thus different from interest-based patronage networks in that they cohere around inter-subjective conceptions of identity, not just patronage. Yet they too perform the important economic and social function of sharing resources according to the principle of reciprocity (Collins, 2004: 231–4).

According to Collins, the fusion of oil and clan politics reinforces a state's illiberal inertia. Incumbent rulers will of course use centrally controlled resource rents to cement loyalty and appease rivals. This raises the value of informal clan identities, networks and modes of political and economic exchange and renders less relevant the rule of law, market competition, an autonomous civil society, the separation of powers, and a system of party representation. Under such conditions, possibilities for democratization decline (259, 260).

Where centralized control and resource rents do not play a role, by contrast, we expect that more dispersed wealth and market exchange will leave some room to transform clan politics. Clan identity may not be as crucial to economic survival. At the very least, taking resource rents off the playing field will reduce the intensity of inter-clan rivalry. At best, as one can generate wealth in more ways that do not depend exclusively on identity, clan ties may begin to give way to more civic-pluralist forms of political and social organization. Above all, where clan patronage networks have fewer resources to distribute, the transformation of identity-driven politics is more likely.

These observations largely reinforce our hypothesis that oil rents make elite switching less likely. As we shall see in the next section the dominant form of patronage network informs, but does not fully explain the divergent Serbian, Georgian and Azeri outcomes developed below.

III. THE CASES

Does privatization under illiberal conditions fuse the interests of the regime with rent-seeking asset holders? Where this occurs, is the regime sustainable or must the country eventually succumb to either regime liberalization or an authoritarian tightening? How do economic elites behave during regime crises? Finally, what is the role of resource wealth in this story and how does the local form of patronage network shape its impact?

The following cases provide structured narratives that answer these questions. We examine three competitive authoritarian regimes that undergo the sort of crisis predicted by Levitsky and Way. The independent variable is the broad economic structure of each country – one is a resource dominant economy and two are manufacturing/service based economies. Regime change is the dependent variable. Variation consists of two successful instances of regime liberalization and one instance of an authoritarian intensification. We consider patronage networks as an important intervening variable, making a distinction between clan-based and non-clan-based networks. This is summarized in Table 1.

A brief snap shot of Freedom House rankings of postcommunist countries in 2007 makes a suggestive point about the durability of competitive authoritarian regimes.[3] Of the 10 postcommunist competitive authoritarian regimes in 1999, only five remain. Of those, manufacturing and service dominated Croatia, Ukraine and the former Serbia/Montenegro have liberalized while resource rich Russia and Azerbaijan became fully

Table 1 Case selection

	Economy Type	
	Manufacturing & Services	Resource Extraction
Regime Movement During Political Crisis		
Liberal Direction	Serbia, *Georgia*	–
Author Direction	–	*Azerbaijan*

Italics = identity/clan-based patronage.

authoritarian. Competitive authoritarian Georgia has made some liberal progress after 2003 (Freedom House, 2006, 2007).[4] Additional postcommunist competitive authoritarian countries are Albania, Armenia, Bosnia-Herzegovina, Kyrgyzstan, and Moldova.

Data thus suggest that the majority of postcommunist competitive authoritarian regimes have become *either* more liberal or more authoritarian over the past seven years. It may be that the economic and political tensions of competitive authoritarian regimes are hard to sustain. As crises emerge and persist, the regimes face pressure to either liberalize or reduce political space for opposition dissent. We expect that the center is difficult to hold over time.

The small number of postcommunist cases and the general limitations of Freedom House indicators (see Munck and Verkuilen, 2002) limit our confidence in these findings. In the following section, we perform three structured, focused case studies. Space limits our investigation to a theoretically informed plausibility probe (George and Bennett, 2005: 75) of Serbia, Georgia and Azerbaijan. Confirmation of our hypotheses will warrant deeper investigation.

The three are chosen using method of difference. Serbia and Georgia have moved in a liberal direction. Azerbaijan has become more illiberal. Yet, all three waged ethno-national war in the early 1990s and share a number of significant additional similarities: 1) by the mid-1990s incumbent elites in all three countries had 'managed' the transition from communism; 2) The process of transforming control of property took place in an illiberal political institutional context; 3) Economic and political interests fused – particularly at the 'commanding heights' of the economy; 4) Fusion contributed to economic mismanagement and distortion; 5) It also created a state-business party of power with an interest in resisting economic and political reform; 6) All three incumbent regimes submitted their interests to a 're-legitimizing election' which each fully felt it could manage; 7) Each of the regimes used widespread fraud to ensure election victory; 8) Finally, the opposition held popularly supported demonstrations demanding reform of the current regime and a transfer of power to the opposition.

In Serbia and Georgia, the opposition was able to prevail with at least the partial assistance of elements of the incumbent economic elite. In Azerbaijan, by contrast, the elite remained steadfast while the opposition crumbled. While the Azeri outcome is by no means structurally pre-mandated, the regime's firm grip on economic elites may have raised the degree of challenge facing the opposition. We do not argue that the contingent choice of economic elites is a sufficient or even necessary cause of regime change in Serbia and Georgia. We do suspect, however, that the defection *contributed* by hampering, splitting and then isolating incumbent rulers and helping to reinvigorate the opposition.

Azerbaijan

The relation of economic elites to the regime. Heidar Aliyev, the communist party leader of Azerbaijan in the 1970s, became president in 1993 after a rebellious army commander displaced President Abulfaz Elchibey. Aliyev survived several assassination plots and attempted coups to build power around the country's resource wealth. As the state became an extension of his control, he raised its capacity by reforming its structure and enacting limited political and economic reforms. By the late 1990s Aliyev had cemented a dominant-party coalition with a significant material interest in perpetuating the regime that he founded.

Foreign investment played an important role in Aliyev's rise to power (Cornell, 2001: 120; Rasizade, 2004: 206). Yet capital inflows did not extend beyond the hotel and service industries that cater to the oil industry (*The Economist*, 2000: 48). By 2003, oil and gas activities accounted for 57 percent of industrial output and crude oil comprised 70 percent of export earnings. Construction and services related to the oil sector also thrived. The non-oil economy accounted for the bulk of employment but generated few exports, paid little in taxes, and was unable to compete with many imports (EIU, 2004a: 26). Oil remains the only significant economic game in town.

This game pays enormous dividends, however. The presidential family allegedly draws $1 billion annually from unreported shipments of crude oil (Rasizade, 2004: 198–9). Access to this and other sources of oil wealth bind Azerbaijan's economic elite tightly to the regime. As the government has used its ability to dispense top positions in the state oil company and ministries as a source of patronage, it has had a distinct disincentive against allowing society, parliament or the courts to wield greater accountability over its actions.

Given the high stakes on the table, the political game is one the ruling coalition is not willing to risk losing. It has beefed up its internal security apparatus (EIU, 2004a: 13) and increasingly constrains the few liberal democratic freedoms Azeri society retained from its brief experiment with pluralist politics (Bouckeart, 2004). It is no accident that Azerbaijan joins

Russia as one of the few postcommunist Eurasian countries to undergo a significant decline in its Freedom House scores since 1999 (Freedom House, 2007).

The Aliyev regime's economic reform program reveals its priorities. In the mid-1990s Azerbaijan launched a mass 'voucher' privatization program, but refused to include a stake in the national oil company despite indications that it would do so (ICG, 2004: 3; Rasizade, 2004: 209). Well-armed or well-positioned *nomenklatura* interests 'spontaneously privatized' most cash producing ventures in the early 1990s. Today these owners are either directly connected to the regime or have reached some form of accommodation with it (Rasizade, 2004: 199–200).

This left rather slim pickings for the voucher program. Nevertheless, corruption inevitably undermined even this modest attempt at privatization. Despite the program's stated goal of turning Azerbaijan into a nation of shareholders, insiders purchased the vouchers from citizens at a fraction of their value. Where enterprises in the program retained value, incumbent managements stripped them of value (Kamrava, 2001). Beyond this limited initiative, the regime has been reluctant to challenge its own vested interests with a more aggressive privatization program (ICG, 2004: 5).

According to the International Crisis Group (ICG), Aliyev maintains a 'pyramidal web of patronage and often-institutionalized corruption where regional and clan influences remain strong' (ICG, 2004: 9). At the top are the ruling *Nakhichevan* and *Yeraz* clans, headed by Heidar Aliyev and his family. Members of these clans use the state apparatus to treat the wealth within Azerbaijan as their own (Guliyev, 2005: 416–17).

As Collins argues, oil rents make the clans more relevant and this undermines the prospects for democratization in Azerbaijan. Farid Guliyev adds, '[f]amily, cronies, clans, and patronage are more influential social constructions than formal legal institutions' (2005: 416). Clan connections trump the rule of law, buy exemptions from market competition, and overcome the separation of powers.

They also make somewhat of a mockery of the party system. Indeed, Aliyev created the New Azerbaijan Party (YAP) to represent the interests of the ruling clans and reinforce their control over society (Guliyev, 2005: 417). Membership in the YAP is a prerequisite for most high level state employment as well as for many sensitive jobs in the private sector. Not surprisingly, given the distortion in the economy, unemployment and under-employment threatened the majority of the population. Most Azeris are susceptible to economic pressure that influences their choice of political activity (Bouckaert, 2004: 9; ICG, 2004: 9–10).

Clans also blur the distinction between the state and civil society. For most members of society civic organizations are unlikely to be as important as identity when representing personal or local interests to the state. Perhaps most importantly, the ruling regime controls the broadcast media.

Aliyev's relatives own several 'independent' television stations. Others are owned by people tied to the regime or vulnerable to regime attacks on their wealth (ICG, 2004: 13–14).

Clan-based patronage networks reinforce high levels of corruption. Alec Rasizade notes that bribes to senior officials as well as the purchasing of official positions are common practices (Rasizade, 2004: 197–8). ICG reports found that while private business can operate, 'protection' of the businesses by members of the ruling elite ensures that large sums of money flow from business to the ruling elite (ICG, 2004: 9). This problem is quite extensive. According to the EBRD, 80 percent of companies doing business in Azerbaijan report systematic state extortion, capturing an unofficial 'tax' of 10 percent of annual revenue (cited in Rasizade, 2004: 199).

Elite solidarity and the 2003 elections. The combination of clan politics and oil rent reduces the options for economic elites to exercise free agency. We would thus expect little movement among economic elites during regime crises. Oil raises the stakes of political competition. Incumbent stakeholders realize that if a change of power occurred, entire clans, including members of the ruling YAP party would lose their access to the resources of the state and might face various forms of retribution. As Human Rights Watch noted:

> [P]olitics [is] an all or nothing game: a party either controls the presidency and with it all of the institutions of power, as well as most of the employment opportunities in the country; or it controls nothing, and its supporters face impoverishment. *In this scenario, it is not surprising that government officials from the national to the local level participated so vigorously in the election abuses and fraud*; their jobs and economic survival were on the line. (Bouckaert, 2004: 10, italics added)

With an ailing President Aliyev in Cleveland undergoing medical treatment and his untested son attempting to consolidate the power he obtained through extra-constitutional means, the fall 2003 elections were perhaps the perfect time for the opposition to score a democratic breakthrough. Instead, they showed remarkable weakness. Similar to YAP, opposition parties in Azerbaijan represented 'regional-based kinship links and loyalties' rather than political ideologies (Guliyev, 2005: 417). This made it difficult for opposition parties to unite or stay united for ideologically driven goals. They easily broke ranks for financial reasons. They were unable to maintain non-violent discipline in their ranks (which were often disrupted by *agents provocateurs*), and they soon became associated with violence and nationalistic pledges to reopen the Nagorno-Karabakh conflict. This may have cost them some international support. Nor did they receive much support from the leading clans' business elites and the various 'independent' media they controlled.

Far from going into the elections with a sinking ship, oil kept the Aliyevs' grossly deformed vessel tight and dry. No key incumbent elites crossed lines. This does not mean that no one will. It does mean, however, that the challenge involved in reversing Azerbaijan's illiberal trajectory is formidable.

Georgia

Georgia and the relation of economic elites to the state. Eduard Shevardnadze faced marked challenges as he replaced Georgia's elected leader Zviad Gamsakhurdia to become interim leader of Georgia in January 1992.[5] First, a diverse coalition of pro-Western democratic intellectuals, clan elites and paramilitary formations selected Shevardnadze as a trusted broker of collective interests. Many saw him as the embodiment of their Western aspirations and promised a more inclusive 'normalcy' that would be less threatening to quarrelling minorities than Gamsakhurdia's strong Georgian nationalism. Yet regional leaders, the clans and paramilitaries also had an interest in keeping the center weak.

Second, Shevardnadze's state apparatus contended with an array of well-equipped armies vying for control over Georgian territory. Some of these, in turn, either secured the backing or the enmity of Russia – creating severe diplomatic headaches (Nodia, 1995: 111–14). Finally, Georgia did not have Azerbaijan's oil to dispense patronage through clan and other patronage networks. At the same time, Georgian enterprises reeled from disorder and severed access to Soviet-era suppliers, finances and markets (Muskhelishvili and Akhvlediani, 2003: 9).

Nevertheless, by the mid-1990s, Shevardnadze secured a new constitution and won a dominant position for his party, the Citizens Union of Georgia (CUG), in parliamentary elections. In the same free and fair elections, he secured the presidency (EIU, 2004b: 6; Tsereteli, 1996: 42–3). The new constitution formally favored the president and his advisors over parliament. But Shevardnadze's informal need to compromise with rival clan leaders left the center relatively weak *vis* the regions (EIU, 1997: 12). Unable to buy loyalty by dispensing rents, he allowed important players to strip and extort assets 'to feed their network' (see Collins, 2004: 244). This included turning an official blind eye to smuggling, trafficking, and organized crime's monopoly in gasoline distribution (Fuller, 1995: 64). Most officials felt little compunction about turning to corruption to supplement their income. Shevardnadze even allowed corruption in the power ministries to supplement poor wages (Darchiashvili, 2003: 13).

Apartments, houses, and individually held plots of land had been privatized in 1992, but legislators put off privatizing larger Soviet era enterprises. In the interim, managers simply took de facto control over assets. Parliament attempted voucher privatization in 1995–96. Yet, similar to Azerbaijan, politically connected insiders expropriated most resources of value. Vouchers finally traded for less than 20 percent of their nominal worth (Muskhelishvili and Akhvlediani, 2003: 10).

Subsequent attempts to auction larger Soviet-era enterprises similarly proved to be problematic. Stripped assets, soviet-era management, redundant workforce, obsolete equipment, and a lack of markets deterred most potential investors. Those who showed interest usually backed off in the face of onerous tender conditions – often imposed on the insistence of enterprise insiders. Meanwhile, clan and criminal groups played an influential role in early small and medium sized privatization programs. By the mid-1990s, both were well established in Georgia's private sector.

Central control over macroeconomic policy levers allowed Shevardnadze to embark upon economic stabilization in 1994–96. Working with international organizations, the government introduced a stable, well-anchored national currency, liberalizing most trade, freeing prices and exercising fiscal and monetary restraint. Bouncing back from hyperinflation that had topped 57,000 percent Georgia achieved 11 percent real growth in 1996–97 (EIU, 1997: 10; Muskhelishvili and Akhvlediani, 2003: 10–11). In addition to the improved economic environment, the government curbed the power of paramilitary groups, ended a three way civil conflict, secured international investment into the Baku-Tbilisi-Ceyhan pipeline project and completed small business privatization – leading to a limited boom in small shops and restaurants. Civil society also developed along with the growth of the independent media (Nizharadze, 2004: 82).

The economy continued to grow after the Russian financial crisis of 1998, but at a slower pace. Meanwhile, the balance of Georgian economic activity had switched decisively away from medium and heavy manufacturing. These large industries, however, continued to exert a drag on the economy (EIU, 1997: 22).

By the end of the decade, Shevardnadze presided over a weak state, ultimately tied together by numerous but tenuous forms of patronage binding a shifting pact that kept his party in power. Unlike Azerbaijan, where oil fueled and reinforced clan hierarchies, in Georgia the center could often do little more than coordinate and broker between rival interests.

Still, the center was the first among equals. Connection with Shevardnadze's family or associates became crucial to controlling the large property assets still in state hands or securing scarce credit. Typically, the government allowed 'personal monopolies' and rewarded friends with administrative positions from which they could extract 'the all-pervasive bribe'.

Shevardnadze bought little from these concessions other than minimal cooperation. Provincial authorities maintained a high degree of independence from Tbilisi and often ignored directives from the center. Meanwhile, national security deteriorated with new challenges from Abkhazia and Anjara, two break-away regions (Antelava, 2003b; Nizharadze, 2004: 82–3; Steavenson, 2001: 73).

Economic society thus had difficulty generating a supply side response to the macroeconomic improvements won during stabilization in 1995–6. Inflation might have been low, but entrepreneurs still had to contend with politically allocated credits, personalized and informal contract enforcement, informal barriers to entry in 'monopolized' markets, an excessive number of regulatory agencies, and all sorts of bureaucratic road blocks. Growth might have been positive, but entrepreneurs resented the 'official cut' and must have realized the internal market (and hence their profits) could have been larger and freer. They were also concerned about high tax rates and the difficulty of attracting much needed foreign investment (Muskhelishvili and Akhvlediani, 2003: 12; Papava and Tokmazishvili, 2006, 27–8).

Fiscal austerity and state enterprise mismanagement hurt Georgian citizens. Unemployment remained high throughout the 1990s and early 2000s and unpaid salaries, small pensions, and severe electrical shortages plagued the population. According to World Bank findings, between 1997 and 2000, 20 percent of the population lived in absolute poverty at any one time; 60 percent experienced it at least once during the same period (Muskhelishvili and Akhvlediani, 2003: 12; World Bank, 2002: 8, 11–13). At the time of the 2003 parliamentary elections, Marina Muskhelisvili and Anna Akhvlediani found that 'private property and private economic activities [were] still broadly based on political-clientelist protection rather than on the rule of law and legal machinery' (2003: 10).

The lack of elite solidarity with the regime. Shevardnadze's ruling CUG contained a group of 'young reformers' who wanted to push for economic and judicial reforms. Yet their measures threatened regional interests and many state clients. Parliament repeatedly blocked them (Jones, 2000: 52). After extensive street protests met a ham-handed government attempt in 2001 to shut down Rustavi-2 (then Georgia's most critical independent television), the 'young reformers' left to form opposition parties. Minister of Justice Mikhail Saakashvili left the Shevardnadze government and the ruling CUG to form the United National Movement (UNM). Parliamentary chairman Zurab Zhvania soon followed. He was joined in 2003 by his successor, Nino Burjanadze. Together, Zhvania and Burjanadze formed the Burjanadze-Democrats. The UNM and the Burjanadze-Democrats quickly became the strongest opposition groups – voicing many of the typical concerns of 'market democrats' (Chikhladze and Chikhladze, 2004: 4; Nodia, 2004: 73; Welt, 2006: 8–9).

While Shevardnadze's 'little oligarchs' remained staunch supporters, business did not provide a united front. Some business interests pushed for reform. This did not always extend to open political opposition, but some did join the various opposition parties while others formed their own. Entrepreneurs organized associations to express concern about corruption, high tax rates, and other elements of the unfavorable business environment. Industry Will Save Georgia (IWSG) was created in April 1999, by prominent businessmen and members of the Industrialists Union, and represented the interests of medium-sized private firms. A second business-interest party, New Rights Party (NRP), was formed in 2000 when a group of politicians representing the business community defected from the CUG. These two parties performed quite well in regional elections in 2002 (Muskhelishvili and Akhvlediani, 2003: 13).

Georgia's 2003 parliamentary elections took place against a backdrop of economic and institutional crises. As opponents challenged the official results, Shevardnadze's support evaporated. Without oil revenues to bind elites to his side, his fragile pacts with industrial, regional and clan-based brokers gave way to a scramble to find new arrangements. Organized criminal-entrepreneurs of course preferred to keep their violently enforced monopolies, but elsewhere Shevardnadze's opponents tapped into significant discontent with the Georgian political economy.

While the IWSG and NRP chose not to protest the fraudulent elections through participation in the post-election street demonstrations (though at least NRP protested through more quiet channels; see Welt, 2006: 24), the fact that such political parties existed at all shows that at least some of the business elite were unsatisfied with the Shevardnadze regime's response to the poor business environment (Chikhladze and Chikhladze, 2004: 4–5; Jones, 2000: 55–7; Muskhelishvili and Akhvlediani, 2003: 12–13; Nodia, 2003: 12; Welt, 2006: 8).

Some members of the economic elite also used their economic power to support the opposition during the fall 2003 election. In the realm of broadcast media, the owners of Rustavi-2 provided critical support. Most people in Georgia received their news from television. By far the most professional, popular, and critical opposition station was Rustavi-2. Prior to the 2003 parliamentary elections, the station played an important role in creating public space for the opposition candidates to voice their opinions and political platforms. By all accounts Rustavi-2's support for the opposition helped drive protests as the government attempted to 'reengineer' its majority in fall 2003. Rustavi-2 aired footage of electoral violations, quickly released exit poll and parallel vote tabulation (PVT) results, and provided continual and favorable coverage of the resulting protests.

The Imedi and Mze television stations, both linked to the business elite, also provided regular coverage of the demonstrations. Though neither Imedi, linked to the powerful oligarch Badri Patakartsishvili, nor Mze, linked to both regime backers and the NRP, initially supported the opposition, Cory Welt argues that they may have switched sides to retain a share of the market. With Georgians glued to their televisions, coverage simply made good business sense (2006: 33). Yet, the owners must have known that the broad coverage would raise participation in the protests and acts of civil disobedience (Antelava, 2003a; Chikhladze and Chikhladze, 2004: 13; Fairbanks, 2004: 119–20; Mitchell, 2004: 345; Welt, 2006: 31–5, fn 57, 62, 64, 65).

For the most part, Saakashvili's subsequent initial treatment of Shevarnadze's 'oligarchs' demonstrates a certain accommodation of their interests. Most importantly, reforms eliminated many sources of rents and the government investigated many members of Shevarnadze's family (Papava and Tokmazishvili, 2006: 30). However, several associates who were closest to former president Eduard Shevardnadze went untouched long after the elections, while others were merely arrested, fined and released rather than convicted and expropriated. If there is an inference to be made, it is that while there may have been a strong market democratic current of support behind the 'Rose Revolution', many elites successfully switched allegiances in an effort to preserve their property (EIU, 2006; but see also Papava and Tokmazishvili, 2006).

Serbia

The relationship of business elites to the regime. Serbia's business class emerged through a tight interest-based patronage relationship with Serbian leader Slobodan Milosevic. While a relatively vociferous but fractious opposition existed throughout the 1990s, Milosevic's governing party retained a monopoly on most of the important channels of influence. He used this to control economic transformation programs in ways that reinforced his own power.

Milosevic inherited a relatively robust privatization framework from the government of former federal Prime Minister, Ante Markovic. This program converted firms into joint stock companies and provided employees incentives to buy shares. Wartime hyperinflation, however, deflated share prices to such low levels that parliament felt justified in renationalizing many companies and turning their administration over to the dominant creditor – generally a state-owned private bank directly or indirectly controlled by Milosevic's governing Socialist Party of Serbia (SPS). Parliament and SPS controlled municipalities also became adept at using local 'emergency powers' to replace the management of local 'socially-owned' enterprises. Milosevic used both of these channels of enterprise governance to buy off enemies and reward friends with enterprise directorships. As state salaries were generally quite low, many directors became rich through stripping assets to privately controlled firms and revenue diversion (Freedom House, 2000).

More broadly, politically connected directors had privileged access to government 'goods' that would be publicly available under a well-run market democracy. This included scarce credit, hard currency, import licenses and favorable treatment from the full range of bureaucracies typical of a predatory state apparatus. Many directors got rich reselling scarce state allocated resources on the black market (Brankovic, 2002: 218–19; Gagnon, 2004: 118–19).

While Milosevic busily nurtured a loyal 'tycoon' class, the population had to get by on a fraction of their 1989 incomes. This increasingly rankled. Worse, Milosevic's associates and friends included criminal elements. A number of these were nurtured to break sanctions for the government or its clients. These groups often operated from within the state or with state protection. They got rich by smuggling oil, arms, drugs, cigarettes and human traffic. Milosevic or his associates allegedly also tapped into organized crime to 'take care' of key opponents by means that may have extended to murder (Brankovic, 2002: 218; Gordy, 2004: 11).

The lack of elite solidarity with the regime. By the late 1990s, Milosevic had lost his original broad worker and nationalist backing and relied on a narrow cadre of rent-seeking bureaucrats and businessmen whose only feasible business plan was to exploit ties to Milosevic, his family or his close associates (Brankovic, 2002: 210; Gagnon, 2004: 187). Beyond his immediate circle, these patronage ties were cemented by mutual economic and political need rather than identity ties. After the 1999 NATO bombing, Milosevic began to crack down on the more extreme, embarrassing or independent organized crime elements associated with his regime (Gagnon, 2004: 185).[6] This 'betrayal' led some clients to throw support to various political opposition parties. The opposition then used the new ties to finance their activities (Andreas, 2004: 4).

V. P. Gagnon speculates that having already secured immense wealth through criminal and quasi-legal means, business elites outside of Milosevic's close family circle no longer cared *who* controlled the state. Milosevic's political opposition now allegedly assured leading organized crime figures and state security figures that they would be able to keep their wealth and or positions following the election. As importantly, leading opposition politicians purportedly pledged to allow the business elite to retain 'control over resources of the [post-election] system' (Gagnon, 2004: 185).

This latter point is crucial because it demonstrated that the beneficiaries of illiberal political mismanagement (and what Gagnon terms 'insider privatization') did *not* switch allegiances because they wanted the new government to build a market democracy. Rather, they switched *because opposition elites assured them that they would not*. Indeed, it is probably no coincidence that when Prime Minister Zoran Djindic attempted to crack down on criminal elements in 2003, he was assassinated by Milosevic's informal security and organized crime interests. This reopened a divisive debate over efforts to decriminalize Serbian politics and business (Gordy, 2004: 14).

Prior to the 2000 election, however, most defections occurred behind the scenes. Defecting businessmen occasionally financed both sides of the campaign. The most visible of these defections was from media baron Bogoljub Karic. It was visible largely because his defection involved directing his independent television station, BK TV to provide leading opposition candidate Vojislav Kostunica favorable media coverage. The gamble paid off badly, however. Karic is currently in exile avoiding various corruption convictions.

IV. CONCLUSION

We have tested the proposition that the corrupt, rent-based political economy of a competitive authoritarian postcommunist regime might eventually become frustrating to property transformation winners. If a government fails to respect the rule of law and enforce contracts, capital flees or hides, local investment declines and growth within the affected sectors slows. Even politically connected entrepreneurs might eventually realize that there is only so much revenue to be squeezed from state capture. As the benefit from rents brings marginally diminishing returns and as political crisis looms, they may chose to 'switch allegiances' to an opposition promising to build the basic institutions of a market democracy. We labeled these hypothetical actors 'contingent market democrats'.

We expected that the exception to this pattern would be found in resource dominant economies. For those with access to rents drawn from the state controlled resource sector, there are few diminishing returns to corruption – as long as crucial resource sector investors are kept happy. Far from switching allegiances to oppositions promising to build a rule-based market democracy, times of political crisis involve a scramble to shore up incumbent political institutions as well as to secure a political leadership that will ensure future access to rents. These dynamics are even more robust where the politicized distribution of rents occurs through identity-based networks such as a clan. The theoretical implication is that privatization under illiberal political conditions is not necessarily an effective instrument in building demand for the institutions of market democracy and may even complicate the path to get there. Nevertheless, we find confirmation here of a 'path contingency approach' that takes the long term agency of post property transformation actors seriously.

As expected, our plausibility probe found a lack of evidence for allegiance switching in Azerbaijan and some evidence for it in Serbia and Georgia. Our examination, however, did not always reveal 'contingent market democrats' where we expected to find them. Switching did occur in Georgia and Serbia, but evidence indicates that at least some economic agents were motivated less by a desire to reconfigure the institutional base of economic activity around the rule of law than by a scramble to preserve their assets and, if possible, preserve their sources of rent under new political conditions. In other words, we found agents acting wholly consistently with their structural roots in an illiberal postcommunist trajectory.

Basing one's economic future on one 'party of power' is politically risky. Given popular mobilization, opposition unity, international condemnation and a few elite defections, politically connected entrepreneurs may abandon the incumbent party and seek an accommodation with the opposition. As the fate of Serbian Prime Minister Zoran Djindic reminds us, however, accommodation does not necessarily mean that stakeholders in the old regime are willing to abandon the quest for easy rents. Many private entrepreneurs may be willing to compete under the uncertainty of markets and democracy. However, evidence suggests that a number of Serbian and some Georgian actors simply sought to retain their political guarantees of economic success. These interests have to be confronted for market democracy to take root.

In Azerbaijan, by contrast, the economic elite remain beholden to the party of power – an allegiance reinforced by the distribution of rents through clan-based patronage networks. Those who resisted state power were simply expropriated, driven into exile or both. The Aliyevs have gotten away with this because they realize that one does not need the rule of law for economic survival if one controls the oil sector. Like feudal lords of the past, the regime simply needs top-down local control and the promise of enough revenue to keep a crucial subset of foreign energy investors happy. If this drives away investment in other sectors, there is no problem – one can draw ample revenue from the single, state-controlled sector (as long as energy prices remain high). In 2003, it was thus little surprise that Azerbaijani elites closed ranks around the Aliyev family while its security forces physically broke the back of its opponents.

Liberal political and economic institutions are hard to come by. Yet, for those countries that failed to liberalize upon the collapse of communism, the news is not all bad. Competitive authoritarian regimes possess internal economic dynamics that may produce crises, energize oppositions and split the regime from its own economic allies. Where oil rents dominate the economy, however, the task of bringing economic elites into the liberal fold is far more challenging.

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NOTES

1 Similarly, McDermott (2007) argues that a government's 'political approach' to institutional transformation is crucial. He contrasts Czech market reformers' transformative approach with Poland's inclusive, participatory restructuring network. Including stakeholders in a deliberative institutional transformation reduces self-dealing, improves coherence, lowers transaction costs and overcomes collective action problems. Still, while the broader 'deliberative institutional' approach explains variation within liberal trajectories (McDermott, 2002, 2007; Stark and Bruszt, 1998), it is unclear how its policy prescriptions would fare in a country beset by illiberal patterns of politics and state capture. In illiberal systems, the purpose of most networks appears to be collective survival based on the norm of reciprocity – where network self-dealing is the glue that holds the unit together.

2 External inducement is also possible. Vachudova demonstrates how the EU fostered political competition in central Europe (Vachudova, 2005; see also Grabbe, 2006; Jacoby, 2004). Unfortunately, conditionality strategies work best where there are both willing tutors and pupils (Jacoby, 2001).

3 Marc Howard and Philip Roessler (2006) operationalize competitive authoritarian regimes using a combination of Polity, Freedom House and additional data to exclude other regime types. 'Competitive authoritarian' regimes receive a Freedom House score between 2 and 7 for 'political rights'. However, Howard and Roessler's concern is with competitive authoritarian *elections*. We feel any discussion of regime *type* should also include consideration of civil liberties. We thus use the Freedom House 'status' rating which combines political rights and civil liberties in a single indicator. FH's 'Partly Free' status is thus used below as a necessary criterion for competitive authoritarian regime. Howard and Roessler also use a Polity score between −8 and 6. Polity data do not yet exist for 2004–07, so we do not use it here. Finally, Howard and Roessler exclude countries whose chief executive or ruling party received over 70 percent of the vote. Following other analysts (Howard and Roessler, 2006; Levitsky and Way, 2002; Wantchekon, 2003) we use this threshold to set a conservative minimum threshold for a competitive election.

4 Kurmanbek Bakiyev received 86 percent of Kyrgyzstan's presidential vote in 2005 while Mikheil Saakashvili received 96 percent of Georgia's presidential vote. Both votes, however, followed popular displacement of authoritarian leaders and were arguably 'founding elections' which Howard and Roessler correctly exclude from their data. We thus include Georgia and Kyrgyzstan in the competitive authoritarian category. Kyrgyzstan is the only formerly authoritarian Eurasian postcommunist country to become competitive authoritarian in the last seven years.

5 Eduard Shevardnadze was first secretary of the Georgian Communist Party from 1972 to 1985 and Soviet Foreign Minister from 1985 to 1990.

6 Note for example the 'assassination' of the high profile gangster/war criminal Arkan, in January 2000.

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