

INSTITUTIONALISM AND CLIENTELISM IN GEORGIA

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I. INTRODUCTION

Georgian society is bidding farewell to the twentieth century with rather strange feelings.

The dream, cherished by Georgian intellectuals for two centuries, has come true: Georgia gained its independence. The goals set by the Georgian National Movement in the '80s of the twentieth century have been attained: Georgia has become a member of the United Nations Organization; the Soviet Union - the Evil Empire - ceased to exist; military units of unwanted foreign countries are slowly, but surely leaving the country; the Parliament, the highest elected legislature in Georgia, is functioning; a system of self-governance is developing; the country has become open to foreign investments; Georgia secured its place on the world map; and finally, the country boasts all the attributes of sovereignty - a national currency, a flag, coat of armor and a national anthem...

In other words, the heights of which we could but dream a decade ago have been attained. But still, the society is not pleased.

At the end of the twentieth century, Georgia quite unexpectedly discovered that it was lagging far behind the "West" of which it considered itself to be an integrated and organic part. As the application of the western pattern of the legal state spread across the globe, it has become apparent that statehood is not a static condition or a one-time act, but rather a continuous activity to satisfy the essential interests of the state's population.

The transformation of the post-communist societies into the ones oriented towards democratic and liberal values has been very difficult. It has become obvious that the current society lacks both clear political will and experience in proper governance. Furthermore, the governmental bodies are unable to solve the entire set of problems.

The failure of time-tested western systems of governance to be effective has cooled the efforts of liberal democrats. It became apparent that the peculiarities of political mentalities in each society caused each society to form different attitudes toward its government and to establish different ethical norms for it.

In particular, Soviet totalitarianism has produced a strange symbiosis of a bureaucratic system with traditional values in Georgia in which the population's *modus vivendi* resembles the mentality of Mediterranean societies. Bureaucracy, developed in the context of traditional clannish relations, fosters patrimonial relationships.

This legacy of clannish thinking is one of the most significant obstacles to development:

- for new democratic countries, because it impedes social progress;
- for western economic structures, because it is a system which fosters corruption and state monopolism; and
- for social strata involved in the bureaucratic system, because it is a catalyst of social injustice and possible social unrest.

For a society which embraces this old social mentality to attempt to construct a new system based on radically different values is quite problematic and dangerous.

In this light, the interdependence of social mentality (a mode of thinking for public officials as well as society at large) and the institutional development of the state system becomes an important dilemma.

We then need to determine how this legacy hampers the formation of proper state institutions and how to prevent it.

Towards this end, this paper scrutinizes the role of clientelism - the client-patron relationship - in Georgian society and - how it links to totalitarianism and other forms of governance. Relationships between high officials and their subordinates affect the creation and maintenance of state authority and are therefore perceived as a sub-system of social relationships.

The present study is the first known attempt to explore this issue as it relates to Georgia. Although there have been, a number of newspaper articles and short and unsuccessful campaigns conducted by political parties or individual politicians which purport to examine this relationship.

The goal of the paper is:

- To show the role and the degree of influence of patrimonialism and one of its variety - clientelism - in Georgia;
- To analyze the interrelation between the mentioned phenomenon and state institutional system;
- To develop recommendations for the activities needed for the further development of Georgia.

Of course, we cannot claim these problems are the only ones facing Georgia, nor that the spread of the clientele relationships is the sole cause of country's misfortunes. Nor do we claim that the present paper will offer solutions to these problems. Theoretical generalization of issues is, of course, necessary, but it should not captivate us. Any theory produces an ideal model of a field, but the reality is far different from the ideal. We hope that the reader will find this article interesting as well as useful for assessing the strength of clientele relationships which affect state institutions in Georgia, and that the addressees of our recommendations will share our views and contribute to the molding Georgia into a legal state.

*"Merits, talents, dignity!
Adhere to only one of the circles."*

Stendhal

II. CLIENTELISM

1. Essence of the Problem

The Georgian society has already realized that independence and international recognition are not enough to build up a modern state and that, along with state institutions, there exist other forms of human relationships, which have no less (if not more) influence on how the life of the society works. The present paper serves the purpose of highlighting the role of one of the forms of such informal relationship - clientelism - in Georgia.

Numerous surveys have been conducted to study the link between corruption and clientelism, nepotism, patronage and traditional patrimonial relations in general terms. There is also much literature dedicated to the institutional-evolutionary theory. We would like to focus on those theoretical works that provide results and analysis of the surveys.

These studies introduced terms such as Khomeinism, and Fujimorism and their resulting theoretic systems into the social and economic sciences. Many countries, developing as well as post-industrial ones, try to study the roots of clientelism and identify ways to overcome it.

Unfortunately, over a long period of time, post-communist countries have been unable to do so. Despite the official ideology (and in some degree because of this ideology), these countries have fostered forms of social relationship which essentially contradicted the type of institutional development needed for democracy. The official ideology in the countries of the Soviet bloc always denied the very existence of such relationships. The sole attempt to carry out a historical-social study was initiated by N.P.Pavlov-Silvanski in 1988. Despite a period of slackening rigidity of the Soviet regime, however, these debates about the genesis of feudalism in Russia and the influence of traditional values on the society were nipped in the bud for being inconsistent with Marxist ideology.

Meanwhile, the West was tackling the problem in its characteristic manner - by disclosing, rather than hiding the problem and by seeking solutions. The theory of M.Dogan and D.Pelas proving the universality of clientelism, studies by K.Legg, R.Lemarchand or R.Putnam and, the fundamental works of S.Eisenstadt and L.Roniger are examples of this examination.

What is the essence of clientelism and why is it lent so much attention?

According to the classic definition, *Clientelism is a combination of social and political phenomena based on the mutual exchange mechanisms of the asymmetric relationship between a patron and client.* This phenomenon originates in a society which is either poorly institutionalized or not institutionalized at all and therefore by definition contradicts the concept of institutionalism.

Historical Overview - Clientelism, in its classic form (and the first reference to the term) goes back to Ancient Rome. This does not mean, however, that similar forms of social relationships were unfamiliar to other countries of the ancient world. In the twilight of the Roman Republic, and especially during the era of the Empire, the crisis of the republican (democratic) system created a social stratum of impoverished or de-classed persons with the right of citizenship. These people possessed nothing save this suffrage and

thus naturally tried to derive benefit from this possession. The Roman aristocracy (or plutocracy) took full advantage of this desperation by beginning the practice of mass bribing of voters. In return for a pitiful compensation of a dinner or inexpensive present, the aristocracy gained the minimum amount of votes needed to guarantee its official position.

Clientelism did not have only economic grounds in Ancient Rome; political anarchy and instability forced citizens of various social standing to seek a powerful protector, or patron. Thus, a system of mutual interest began to emerge. A potential client sought a patron to protect their needs and patrons in turn gathered a mass of clients who, if needed, would support him to accomplish his goals.

Dependence and solidarity then could be the motto of clientelism, which in essence is a system of mutual obligations.

Feudalism institutionalized these patron-client relationships. Feudal vassalage, in fact, was grounded in the basic principle of clientelism, i.e. - the relationships between the state and its common citizen were replaced by the personal relationships between the suzerain and his vassal. However, it should also be mentioned that the state was the guarantor of the legalization of such relationships and was based on the system of such relationships.

With the emergence of a western, urban-bourgeois democracy, a new form of clientele relationships was established: that of a collective patron (e.g., city, craft guild, etc.) and a collective client (e.g., citizens, artisans, etc.). Yet, the growth and strengthening of the bourgeoisie relationships lessened the significance of the clientele relationships. European bourgeois revolutions and the emergence of constitutional states helped diminish the influence of such relationships on social and political life. The resulting modern, institutionalized, legal state then became the protector of the citizens. It might be argued that this new state is another manifestation of clientelism: the state itself is a patron, while its citizens, with their rights and responsibilities to the state, are a collective client. An ordinary citizen of the modern state, with his/her own sense of responsibility and ambitions, performs the role similar to that of a *Chevalier de Robe* (nobleman at State service) at the court of a prince.

Modern Clientelism - These processes stirred up the hope of liberal-minded intellectuals that clientele relationships, as a phenomenon characteristic to a certain stage of social development, would soon exhaust its capacity and sink into oblivion.

But things took a different turn. The illusion that industrial society of the twentieth century would reject clientelism has already been dispelled. The primitive *Boss-ism* developed into *Lobbyism*; or, in other words, the sacral clientele relationships of the old epoch were simply replaced by the material and formalized clientele relationships of the modern epoch. We are talking not about relationships of marginalized or de-classed groups, such as the Mafia or Cosa Nostra, but rather about clientele relationships of the state.

Modern bureaucracy - the primary pillar of state clientelism - produces minor clans, formed and held together by voluntary obedience to the patron rather than genetic belonging to the "family". Clientelism is embedded in bureaucracy, and therefore in developed countries as well.

Modern social sciences distinguish the following forms of clientele relationships:

1. local, interpersonal;
2. patron-intermediary-client; and
3. organization as intermediary.

The modern clientele relationship is not a mere relic of the past. Neo-patrimonialism, first observed by J.F. Medar in Uganda and then attributed to the entire Africa, stems not only from traditions but also from new realities; in other words, it is a hybrid. Moreover, all three forms reach beyond the borders of Africa and extend across the world. Depending on the level of the society's development, clientelism may play a primary or secondary role in government.

What makes this phenomenon so viable?

Like in Ancient Rome, a lack of resources and the accumulation of these scarce resources in the hands of the government create the foundation for modern clientelism. A modern bureaucrat is as much concerned about the distribution of insufficient but scarce subsidies as was a socially, physically, and economically unprotected Roman citizen.

Clientelism is the monopoly of not only necessary and desirable resources, but of confidence as well. The strengthening of clientelism within society indicates a crisis of social solidarity. In a modern society, it becomes a very effective weapon against social alienation. Clientele relationships mitigate social confrontation and prevent the extreme marginalization within society, because they prompt the number of members of "surplus population" to somewhat decrease through means such as cronyism. Similar forms are so widespread in the world, including both the government and private business of Georgia, that further examples are not necessary.

These "positive" aspects of clientelism, however, do not foretoken a social truce between opposing social strata, because clientelism and other patrimonial relations never can eliminate seemingly eternal confrontations, or what Hobbes termed "all against all". The hierarchical, so-called "Godfather" system of Georgian "traditional" family clans illustrates this persistent power dynamic. A family member who is relatively successful in business, politics, or science actually runs the activities of his "unlucky" relatives of lower social standing. This type of "protection" is often realized through autocratic methods. Clientelism, then, is inhumane in the *practical*, as well as *theoretical*, sense.

Another problem produced by nepotistic clientelism is discrimination of "strangers," or non-relatives. Like cronyism, this discrimination can manifest both in global and everyday matters. As we mentioned above, this problem is not unique to developing countries. Nepotism and nepotistic clientelism are problematic in the US as well. A number of states, such as Michigan, have implemented a special law to control and limit this type of discrimination. With such special legal doctrines, the US society tries to prevent and control conflict of interests within social relationships.

The primary problem associated with clientelism, however, is corruption - another incurable malady of humankind.

2. Clientelism and Corruption

As proclaimed at the 34th session of the UN General Assembly held on 17 December 1979, corruption is "an action or inaction performed in return for a gratification and in the interests of a giver of the gratification by a public official within the sphere of his/her official authority."

The extent of public sector corruption depends on the capacity of a public official at his/her own discretion to dispose of those resources that must belong to the state. It should also be noted that corruption has grown significantly since the end of the Cold War. This is true not only for post-communist countries, but also for post-industrial countries. However, corruption is especially widespread in the state institutions of developing countries. While it is perceived as an abuse of the rules of the game

in developed countries, in developing and post-Soviet ones, corruption is the rule of the game itself and has a systemic character.

Many western countries have tried to benefit from corruption's grip on these countries. Businessmen of post-industrial countries used to take advantage of the system of bribery as they entered these new markets. For example, Germany strictly prosecuted any evidence of corruption on the territory of Germany, but turned a blind eye to such actions carried out by German companies in the developing countries. On the whole, this strategy damages the western economy itself. According to the official US data, American companies suffered 11 billion USD losses due to corruption in the process of concluding and implementing international contracts in 1994-1996.

Corruption especially gains strength when a country undergoes modernization. In the post-communist countries, this growth is caused by:

- The difficulties of the totalitarian legacy;
- Political instability and economic decline;
- Imperfection of and underdevelopment of legislation, including inconsistent or flawed laws and the absence of regulatory norms;
- Ineffectiveness of governmental bodies;
- Weakness of civil society and its detachment from the authority;
- The absence of democratic traditions in politics.

When talking about corruption, we cannot ignore its effects. Although this issue will be discussed later in the context of the problems faced by Georgia, we shall offer a list of the various consequences.

The economic effects of corruption:

- The shadow economy grows;
- Competitive market mechanisms are distorted;
- Efficient private owners emerge very slowly;
- Budgetary resources are spent inefficiently;
- "Overhead" costs due to corruption cause prices to rise;
- Market actors lose confidence in governmental bodies;
- The web of corruption grows throughout the commercial sector.

The social consequences of corruption:

- Social development is deprived of significant amounts;
- Property-specific inequality increases;
- Laws are discredited;
- Organized crime grows;
- Social tension intensifies.

Political effects of corruption:

- Policy objectives intended to encourage national development are changed into those that support the development of oligarchic groups;
- Confidence in authority decreases;
- International prestige of the state is undermined;
- Political competition is profaned and restricted;

- The newly established democratic system is threatened with destruction.

3. Roots of Clientelism

Before analyzing the current situation in Georgia, we would like to review prerequisites for clientelism and corruption.

When examining clientelism, one should bear in mind the peculiarities each country has formed over the course of their historical development, even post-communist countries. The importance of local traditions was emphasized by Alan Greenspan, Chairman of U.S. Federal Reserve Board. He said that the removal of the command economy did not directly translate into the establishment of a free market. In such cases, the cultural peculiarities of the foreign country (he means Russia) had to be considered. Without examining local peculiarities, it is impossible to assess the degree of clientelism within the government, since the largest portion of the new political elite in the post-communist countries are the former Soviet *nomenclatura* who practice old Soviet traditions of governance.

* * *

What, then, can be said about Georgia?

The feudal mentality still dominated Georgian society when Russia annexed Georgia in 1801-1810. The efforts of Georgian literati to introduce European thinking into a politically disintegrated and economically depressed country did not bear fruit. The absence of entropic processes made it difficult for the overwhelming majority of the population to comprehend the ideas cherished by the intellectual elite. This failure coupled with the introduction of a foreign administration by force and the dissolution of traditional legal institutions fostered social nihilism. The Russian society's disbelief in its own statehood further strengthened this phenomenon.

The growth of the foreign bureaucratic machine amidst this declining confidence in the state intensifies the clientele relationships. In Georgia, this tendency appeared at the end of the nineteenth century and continued to grow strongly during the epoch of socialism.

The 1917 October Bolshevik Coup substituted totalitarian order for various social strata in Russia, and consequently, in Georgia. The symbiosis of a rebellious intelligentsia and national riots was manifested in the Bolshevik doctrine and facilitated the formation of a new ideology. The old system was ruined. Since there were no favorable conditions to develop a new civilized system, a communist order instead of a constitutional one was established in the country and theoretically, clientelism was eliminated.

However, around the same time, a new class of owners began to form. Although Marxism denied private property, the Communist Party of the Soviet Union (CPSU) became the largest owner of property in the USSR. It owned everything - from publishing business to vacation homes - and simultaneously controlled the state revenues.

Totalitarianism, as a rule, prevails in countries of the so-called "second echelon". In opposing its competitors, it employs the slogan of "accelerated catch-up". The society, which reacts painfully to even an insignificant lag behind other countries, attempts to solve this failure by radical methods, sacrificing even its own interests. This represents the phenomenon, which Eric Fromm termed "flight of the mass from liberty" - the masses try to find refuge from everyday problems and therefore willingly yield their rights to radical forces.

The emergence of totalitarianism is usually preceded by an extreme strengthening of the role of the state in social life. The society perceives the state not in the western sense of the term, but as a spiritual concept. The society does not call for a change of the idea; it simply believes the faulty order (government) and lack of truth (comparative objective information) in upper echelons of the government to be the reasons for its misfortune.

Just as the establishment of a totalitarian regime is a reaction to the reforms implemented by the previous regime, so the Bolshevik revolution in Russia was a reaction to the capitalist reforms carried out at the turn of the twentieth century. It makes no difference if it was a step taken to defend "the Asian way of management" (state despotism) or to manifest its rivalry with developed countries (a process which de-colonized developing countries undertake in order to "catch up with the West " and, in many cases, which leads to capitalism).

Pursuant to Z.Bzezinski's definition, *Totalitarianism is autocracy which rests on modern technologies and mass legitimization*. In this respect, though it might seem strange, fascism, with its objective to strengthen the role of the state to the absolute degree, appears more sincere in its action than Bolshevism, which propagated the Marxist idea of the destruction of state. However, the Bolsheviks did initially intend to strengthen the proletarian state.

Later, the development of the Soviet Union proved Max Webber's assumption about the danger of the concentration of large power in the hands of a totalitarian bureaucracy: the *Proletarian Dictatorship* unnoticeably, but quite rapidly, was replaced by *Bureaucratic Dictatorship*.

As a result, the USSR developed a hierarchical system of embezzlement. The institution of intermediation gained in strength. Representatives of this stratum (*Khodoki* - "messengers") carried out activities similar to that of qualified lawyers and relied not only on the forms of informal relations but also on legislation. Gradually, this relationship evolved into an administrative system. Clients (qualified workers of strategic state enterprises) and patrons (privileged state agencies) were stratified.

That meant that neither clientele nor their patrons were homogeneous in terms of social status. The privileged part of the ruling elite (e.g., CPSU leaders, managers of the military-industrial enterprises) had its own clientele, which was more privileged than the clientele of the *nomenclatura* of lower hierarchical standing (e.g., local governance or directors of ordinary plants).

At the final stage of the Soviet regime, a "saturation" of the government was accomplished and the process of promotion of new cadres halted, or extremely slowed down. The reduction of cadre resources and ebbing of the enthusiasm that prevailed in the Soviet Union in 1920s-40s resulted in a serious psychological crisis of the ruling circles in 70s.

Now stable in their power, the "naturalization" of *nomenclatura* characterized the last decades of the Soviet system and the "*perestroika*" period. The *nomenclatura* rejected the apparent totalitarian methods of governance and, by means of corruption, strove only for its own welfare. Membership in the *nomenclatura*, rather than background, financial resources, or mental abilities, was the determinant of Soviet clientelism. During this era, the principle of mutual agreement was gradually forgotten.

Two factors, which resulted from the fight between *nomenclatura* interest groups, exacerbated the crisis in society:

- *Desacralization* - the fading from the consciousness of society of the image of "unerring leaders," e.g. criticism of I.V.Stalin personality cult by N.S.Khrushchov, criticism of L.Brezhnev's activity by M.Gorbachev;

- *Democratization* - e.g. M.Gorbachev tried to gain support of mass groups of population in the fight with opposing party clans.

The disintegration of the Soviet Union induced no change in the thinking of *nomenclatura*. Its elite and mid-level members still carried on their activities based on old stereotypes. i.e. they still held the myth of Russia's "invincibility", believed in easiness of "making deals" in Moscow, and settled political problems by personal contacts. We can bring as an example the feelings of the Georgian *nomenclatura* in the first half of '90s, when not orthodox communists but the majority of high public officials were trying to convince the society that the reduction of the state sovereignty (Georgia's membership of CIS) would instantly ensure economic revival, high salaries and security. The country's leaders used to claim that they had very good personal relations with the leaders of Russian government and that through these relations Georgia would get more assistance from Russia than from the West.

4. Modern "Georgian" Clientelism

Clientelism in the USSR was conditioned by the fact that there was no political authority other than hierarchical bureaucracy. Loss of power was actually equal to social, and sometimes physical, death. Therefore, the confronting groups engaged in ruthless fights to secure resources and privileges in order to retain power. It should be *ad gloriam* Soviet *nomenclatura* that these battles were carried on out of the public eye, although the population could sense a change of the country's political leaders or political course by a surplus of symphony concerts on the state television.

After the collapse of the Soviet Union, the activity of the patrimonial *nomenclatura* was revealed. Deprived of Moscow's protection, the Georgian *nomenclatura* took public political steps and therefore attracted undesired attention from the society at large. The first visible step in this direction was the 1991-1992 "Tbilisi winter" (the coup of December 1991 - January 1992). Among numerous objective or subjective factors which caused the military conflict in the capital of Georgia, we distinguish three that are clearly connected with the clientele relationships of the former Soviet *nomenclatura*:

1. Admittedly, any actualized revolution or coup d'état points to the lack of political tact of the authorities, as well as opposition;
2. The motivation of the *nomenclatura*, as a constituent of the politically diverse opposition to President Zviad Gamsakhurdia, was no less important. Its reaction to the loss of actual power was one of the most significant factors of the period. The limited resources of Georgia (not limited to natural resources) became the cause of confrontation among various interest groups;
3. And finally, there was a confrontation between clientele groups and the extremely socialized society. Like the Sicilian Mafia's efforts to combat Mussolini's fascist dictatorship, Tbilisi's elitist clientele (the so-called "genuine citizens of Tbilisi") played an important role in destroying the marginal regime of Gamsakhurdia.

This analysis recalls a little-known fact from World War II. The Mafia accepted American administration's proposal to employ the Mafia's influence to ensure favorable conditions for the advancement and fortification of the US army in Sicily and the European Continent. In return, the American government would overlook the activities of the Italian Mafia in the US. This decision of the American administration proved fruitful for the US: after the War, the government, established the so-called Hoover Commission to Combat Organized Crime and severely hurt the American Mafia. The commission was later transformed into the Federal Bureau of Investigation (FBI).

An examination of Georgia's recent history, and in particular, the fate of Jaba Ioseliani, the *Mkhedrioni* leader, reveals certain parallels in the strategies of the Georgian and U.S. governments

towards the criminal world. The criminal elements are used by the state bodies not only under totalitarian regime, but in the countries with democratic ideology as well.

The next stage of Georgia's clientelism began in 1992. It is commonly held that at the final stage of civil commotion, clientelism sometimes becomes rather aggressive and is especially dangerous for society, e.g. juntas of generals in China after the revolution in 1911, the Italian Mafia. The events in Georgia developed according to the classic scenario. The activity of de-classed clientele - in this case, the "Mkhedrioni" - spared ex-Soviet *nomenclatura* from social retaliation, because it frightened the large part of the Georgian population with its terrorist methods and conducted several punishing expeditions in particularly disobedient regions (for example, in Samegrelo). Later, however, the existence of Mkhedrioni became unacceptable to Georgian society, which never demonstrated affection for armed groups, as well as to those opponents of Gamsakhurdia who, in contrast to the democratic anti-Zviadist movement, battled for their lost positions.

1995 marks a period of *stabilization* for Georgia. During these years, *nomenclatura* took control and was only concerned about maintenance of status quo.

Today, the process of economic recovery and development of national bourgeoisie occurs in the context of these clientele relationships. It is difficult to run a business without employing these relationships (the so-called system of "roofs"). It is no wonder that the overall majority of Georgian *nouveau riches* are the political elite and former and current government functionaries. The existence of the corrupt bourgeoisie elevates the degree of dependence of one person on another and the need for protection of one person by another.

*An actor is always dishonest,
Only a spectator has conscience.*

Goethe

III. INSTITUTIONAL-ECONOMIC (SOCIAL) THEORY

The aim of this chapter is to introduce the concept of institutional economy and the terms and instruments applied in this field; to explain the essence of rent-seeking; to discuss the results of social, economic and political investigations of clientelism; and finally, to use all this knowledge to explore the reasons why systemic corruption exists at the state level in Georgia and explore solutions to these problems.

Since we will have to deal with new terminology, it is best to begin with semantic clarifications.

In international economic sciences, there are three schools of thought about institutional behaviors. For each school, had one of the following priorities:

- *Institutional project* (nineteenth century -first half of the twentieth century - J.S.Mill's theory and his followers) regarded structural and procedural improvement as the most important factor in institutional behavior. The world political crisis in the mid-twentieth century - the victory of fascism in Italy and Germany, extension of communist totalitarianism over the 40% of the world, the crisis of the III and IV republics in France - brought about the so-called "new institutionalism," which shifted the focus to institutional problems;
- *Social and economic factors* (neo-Aristotelian and partially Marxist views - R.A.Dahl, S.M.Lipset) were considered to be the engine of development;
- Apologists of *Social and cultural factors* (followers of Plato, M.Webber, Alexis de Tocqueville) studied the environment in which a social institute existed.

We are not going to scrutinize these trends in the present paper; we will only focus on those aspects that these trends have in common and which laid the foundation for the latest opinions in the field of institutional behaviors.

Let us start with the basic elements of the new institutional economy: rent-seeking, the right of ownership, possession and disposition of private property, and the theory of group interest.

From the perspective of the institutional economy, an institution implies every structure and rule that stabilizes and regulates the expectations of economic agents and, at the same time, makes it easier to predict the behavior of individuals. In other words, *institutions are constrained based on human principles, which determine the mode of political, economic and human relationships*. As shown below, regulatory behavior and the degree of stability of the institution's expectation are the most important factors. With these factors, an institution makes opportunities available to individuals (a positive aspect) but, at the same time limits these opportunities (negative aspect).

Expectations are created and stabilized by *formal* and *informal* institutions.

- Examples of *formal institutions* include: rules for the functioning and competition of capital, labor and commodity markets, which specify common and fair rules for a variety of economic actors; contracts (explicit and implicit) which provide rules of behavior to be observed by the parties (e.g. buyer's liability to pay and seller's liability to supply goods); and ownership right.
- Examples of *informal institutes* are: traditions; moral code; habits and conventions.

The agent of institutional change in governmental bodies is a *public official*, a decision maker. An official's decision depends on his/her subjective perception (mentality). When considering changes, s/he identifies the means that s/he thinks appropriate. Decisions are determined by changes in the environment as well as by accumulated knowledge and experience and the combination of these factors in the thought process of the actors.

Changes to formal rules (or constraint) may result from such juridical changes as transfer to new status; changes to the laws made by the legislature; changes to regulatory rules introduced by governmental bodies; or amendments to the Constitution - i.e. by defining those basic rules (metarules), which serve as a reference point for the construction according to which the entire system of rules is built up.

Changes to informal constraints, such as norms, agreements, and personal standards of fairness, are determined by the same factors. However, they occur gradually and often subliminally, since individuals develop alternative patterns of behavior according to the changed perception of cost and benefit.

Formal rules can be changed overnight, but informal rules require more time. The incongruity of formal rules and constraints due to informal systems creates a conflict. This confrontation can be lessened by altering both rule and constraints. And the reality of this new balance will be far less revolutionary than the rhetoric would depict it to be.

It is then interesting to analyze in Georgia the interrelation of formal and informal institutions against the backdrop of the decisions taken by the agent (public official), especially when one considers for the collective apathy which prevailed in Georgia in the current post national-liberation movement period (1995-1999) and the routinization of public charisma.

We believe that the current crisis of Georgian governmental bodies stems from the undeveloped relationship between the formal and informal institutions.

Below, we will touch upon the Georgian Parliament's legislative anti-corruption initiatives that will fail to eliminate corruption because they disregard the role of informal institutions.

1. Right of Ownership

The right of ownership should be examined from two viewpoints: that of the formal and the material. The former looks at the definition of the ownership right, i.e. whether this right is defined and if so, how. The latter examines the extent to which the right is realized and how it is applied.

Usually, the state defines the right of ownership with a constitutional provision, a law and other legal documents. For instance, every democratic country defines the right to private ownership in its foundational law. From the material perspective, this right implies the capacity of individuals, as well as the state, to utilize the formal title of owner. That means individuals or organizations without this title may be prevented from using the owner's property. In a democratic society, however, the independent legal system enables a person to protect his/her rights from illegal actions through peaceful methods.

Therefore, the independent legal system and an efficient government are essential to the implementation of the ownership right. In democratic countries, the state has a legitimate monopoly over this authority, according to the social contract that regulates by *the rules of game* of democracy and ensures active citizen participation. Administrative bodies and law enforcement become the tools which the state can employ to enact and enforce its right of ownership, even it encounter individual.

At the same time, this state monopoly poses the danger of abuse by state officials for personal gain or purposes and opposes the citizen's will. D.C.North, a member of the Chicago economic school, dubbed this dual state function as a double-edged weapon.

In Georgia, many organizations disguise themselves as a free market one through their form of management and ownership (a mixed public/private form), when in fact they represent a post-Soviet form of ownership in which the state share is actually controlled by the management board. This organization is subject to conflicts of interest and susceptible to corruption, as the managers seek to use it for their own personal gain.

The legal, political and economic orders, as well as the behavior of public officials are fundamental to define the ownership right. We will demonstrate that an official title of ownership that lacks the ability to be realized is worthless. However, for the state to recognize the ownership forms, irrespective of the owner's identity, is an important prerequisite to equity and a central element of formal fairness, which in other words is called a rule of law.

The lack, or absence, of the principles of a legal state and the vague demarcation of vertical and horizontal authority limits the exercise of this right.

2. Formal and Informal Institutes and Trans-excise Costs.

Trans-excise costs are crucial to understanding the relationship between formal and informal institutions; neither economic behavior nor institutional action can be understood properly without trans-excise costs. In literature, this term generally means the cost of the development and implementation of a system of rules that are to secure good standards of management in the division of labor. Trans-excise costs can be defined as *costs of the exchange of the ownership right*.

Data processing by actors, as a result of the absence of costs, creates a basis for the formation of an institution. The core of the matter is to evaluate the importance of rationality and interchange indices, which would not enable the actors to achieve maximum total result within the framework of the interchange model with zero trans-excise costs.

Trans-excise costs are created due to the fact that information has price and is asymmetrically distributed between the parties of interchange. Therefore, a result of any action taken by the actors for the formation of the institute aimed at structuring interaction is an increase of market imperfection. The effect is that the stimulus generated by institutions convey mixed signals between the participants of the interchange and therefore, in case when a new institutional structure is more facilitating to get the benefit of interchange than the old one, there emerge deceptive stimulus, the desire to become a "dead-head" and the like. This, in its turn, leads to the increase of market imperfection.

Successful economic development permits to reduce the trans-excise costs, i.e. to obtain greater benefit from exchanges. It leads to extension of the social and economic market, and the characteristics of the market can be fully explained in the framework of the theory of institutional development.

According to the neoclassic model of ownership, such innovations, as a rule, cannot provide an opportunity to develop efficient markets. It is a policy that defines the rules of the market and forces agents to observe these rights. Political market indices are used to understand imperfections of the market. Economic market performance can also be measured by an index, which a particular structure

employs to imitate or approximate zero trans-act cost patterns through arbitrage and effective feedback. Likewise, the efficiency of a political market can be measured by:

- compliance with political programs proposed by competitive candidates, which are to bring about an increase in the welfare of electorate, as assessed by the latter;
- the degree of intercorrelation of the newly adopted laws or regulations;
- maximization of private profit, regulated by the exchange parties;
- the degree of confidence of legislators and electorate as their regulatory influence, as far as a fair compensation is awaited.

Following the basic principle of the economic theory - the aspiration of individuals to obtain maximum profit through rational behavior - individual behavior is conditioned both by their own priorities and by institutional structures that shape possibilities and constrain behavior of individuals. Methodologically, it is assumed that the individual aspiration of economic entities is relatively stable. The influence of existing institutional structures, then, prompts the peculiarities of individual behaviors. Consequently, one can conclude that controlled institutional actions lead to predictable behavior of individuals.

In general, theories of institutional development have two approaches:

- Institutions form history; or
- History forms institutions.

For both, the social component is essential to the new institutional economy. Since rules regulate behavior, the behavior of individuals (or at least its trends) can be assessed and predicted. This ability permits institutions to control expectation, which in turn reduces the uncertainty in the society. The state can direct individual behavior to predetermined "channels" and therefore mitigate threats to the stability of society.

The state then must employ a long range, gradual and predictable strategy to establish and entrench the universal parameters of behavior for all individuals in the society. As the agents of the legal state who execute this strategy, it is essential that public officials abide by the law. The functioning of legal or illegal interest groups is therefore of great concern.

3. Interest Groups and Rent-seeking

Now, let us consider the interest groups and their relation to rent-seeking.

An *interest group* is a formal or informal association within a social group which in principle expresses the common interests of its members. Individuals form these groups to advance their own political interests and in order to participate in and benefit from the distribution of rewards.

An *illegal interest group* is mainly composed of organized criminal bands that are often compared to Italian Mafia or criminal syndicates.

Presently in Georgia, the main social interest groups are populated by representatives of constitutional bodies: the president, who possesses immense power and strong executive authority; former *nomenclatura* politicians; officials of the old communist system; Parliamentarians; and members of political parties.

* * *

The concept of the *rent-seeking* in the society offers a theoretical instrument for the study of social conflict in the sphere of distribution. Rent-seeking, in its simplest sense, implies the multiple efforts of the state to intervene in the market distribution of resources for the purpose of misappropriating profits in the form of artificially created rent. For a broader understanding, it is necessary to focus on profit obtained from political support.

G.Tullock's and A.O.Kroger's theory based on economic regulation and competition defines the concept of rent-seeking through analyzing social costs of discretionary state intervention into the economic process (e.g. state monopoly). The rent (or revenue) is considered to be the taxes paid for the right to own resources that exceeds the income which would be obtained if these resources were utilized in a non-monopolistic manner. It is created when state intervention and regulation directly, or indirectly, distort prices, competition and consequently, state revenues. The intervention of public officials and politicians alters ownership relations, further raising the rent.

The *nomenclatura* try to exert absolute control over all spheres of life, from a monopoly on equity to contracts on the repair of sewerage system. This battle is between individuals (individual rent-seeking) as well as organized groups (collective rent-seeking).

Thus, *rent-seeking*, in essence, means the use of political authority to misappropriate stable political rent. *Profit-oriented behavior*, by contrast, is the use of the economic capacity to raise revenues to obtain temporary economic rent.

Over the years, the concept of rent-seeking has broadened. According J.M.Buchanan's definition: "the concept of rent-seeking helps to explain behavior through social institutes where an individual effort to maximize price results in social losses rather than gains". The objective of interest groups is to obtain profit (or rent) from a monopoly, as well as all types of profit and privileges the state offers, by distorting economic market conditions and employing political and bureaucratic instruments. Therefore rent-seeking encompasses all revenues and special privileges distributed by politics rather than the economic market.

If we assume that politicians and officials behave in a corrupt manner and therefore abuse the legitimate limits of activity, corruption then is an illegal form of rent-seeking. State corruption is an intervention into or influence on the ownership right which bolsters the political capacity to obtain illegal revenues. Politicians and officials can use their almost unchecked authority to reinterpret, at their discretion, the right to own former state enterprises, as well as private property. Corruption then becomes an illegal market for the ownership right in which public officials illegally sell the right to dispose of state property.

When the state's capacity to obtain profit is greater than the economy's, the conflict between legal and illegal rent-seeking is exacerbated. An institutional environment (e.g., political system or political culture) or state economic policy can support such a situation and produce an undesirable result: unproductive rent-seeking prevails over that of productive and profit-oriented activity throughout the society.

Legal and illegal rent-seeking depends on the scale and nature of the authority and the decision-making capacity of politicians and officials. The wide application of rent-seeking is expected in the countries with state regulated private business and an extensive state government. These are the same countries that have old centralized management traditions and an economic system based on broad discretionary authority and personal relations.

It is then natural that in developing countries, interest groups will try to expand their authority by altering the ownership right within the political market in order to misappropriate economic advantages.

Therefore, it is not surprising that these countries are dominated by immanent systems of political possibilities for getting profit. The processes of development of such groups into "rent-seeking society" are especially interesting. If existing political and bureaucratic conditions promise material welfare to individual economic entities and social groups, then it seems quite possible to assume that the latter will incur expenses and take all efforts in order to misappropriate economic advantages through changing ownership rights on the "political market". Since social rent-seeking is significantly conditioned by the social institutional environment, when studying this phenomenon it is necessary to take into account the political culture and political system of the country.

4. Means of Performance of Political System

In authoritative political systems, ruling politicians must fight both for survival and for the political support of strong social groups. To this end, they frequently exchange material (economic) advantages for political support. This redistribution to interest groups is the basic strategy of the state to gain legitimacy and maintain its authority.

It is obvious that the targeted state redistribution policy (first of all, special policy regarding interest groups) will be used to stabilize authoritative political system and namely, ruling political power.

This necessary strategy pushes ruling politicians and officials to fight (and they do fight) against any constraints on their rights and, consequently, against any change to the individual right of ownership. At the same time, they reserve the right to redefine or alter it using their own authority. Therefore, in principle, an authoritarian political system is inconsistent with democratic control, which is based on the division of authority, and with the principle of a legal state, whose goal is the rule of justice rather than the restraint of power.

Politicians and officials will resist the introduction of non-advantageous market mechanisms into the economy and instead will try to personalize and politicize as many social decisions as possible. As N.Machiavelli wrote in 1513, "the main element of dominance of the authority should be a certain extent of state voluntarism rather than prediction".

The definition by M.Crozier "A governs B as much as A is able to guess B's next action, while B is in confusion about the next action of A" is totally acceptable when a decision concerning the representative of the lower hierarchical standing is made by a higher one in bureaucracy.

In post-industrial countries such as France, special services are established to prevent possible conflicts between officials of different standing, e.g. joint councils composed of junior staff members and administrators which decide about the fairness of a decision the administration makes about a subordinate.

The international community also pays increasing attention to the potential abuse of the power relationship. Units of the UNO have adopted a number of international conventions, including:

- 1948 Convention of Freedom of Associations;
- 1949 Convention on Trade Unions and Right of Negotiation; and
- 1958 Convention on Labor Discrimination.

A special convention was also adopted in 1978 to extend the provisions of 1949 convention to include state officials.

The proposition that state officials will conduct themselves in a proper manner if they are exposed to and educated about the proper principles of activity is fallacious. Their wrongful or illegal activity is the result of the fear of the loss of power, rather than of the lack of information or of qualification. Representatives of *nomenclatura* understand the need to be unpredictable in order to maintain authority in a bureaucratic hierarchy (see M.Crozier's definition). This fact does not mean that we reject any attempts to retrain public officials. Rather, it highlights that we must identify whether the wrongful activity of the *nomenclatura* is a result of qualification or of intention.

In this respect the bureaucracy can support its "own overall competence" in making a decision on any major issues and predict its action to the minimal extent (which is necessary for governing). Statistically, rent-seeking is the expression of the social battle for available revenues (rent). Dynamically, it reflects initial efforts to create artificial conditions, i.e. state intervention to produce revenues that are then misappropriated as political dividends or used to protect status.

The social dynamics of the distribution of revenues reflect the reality that particular state actions and related privileges spark many other forms of rent-seeking. Large interest groups emerge demanding new privileges from politicians and officials. The latter, in turn, yield to the groups since they rely on them to legitimate their power under the conditions of an authoritarian regime. This relationship creates state-regulated interactions of "sellers" and "buyers" which ensure the misappropriation of the profits (obtained through state intervention). This relationship contributes to the stability of the authoritarian political system and supports the current persons in authority. It is doubtful, however, that such a system would create the incentives necessary for economic growth and social development.

*Gifts make slaves
Like whips make dogs*

-Eskimo saying

IV. REASONS FOR CRISIS AND SOLUTIONS

In this chapter, we will review the link between clientele relationships and the process of constructing a new Georgian state.

Clientelism and institutionalism have already been discussed as general concepts, but blind imitation of the theory in this case is dangerous since theories create ideal scheme of a society, and consequently, bureaucracy. Reality, as a rule, is far different from the ideal model. Our aim is to paint a real picture of local peculiarities by applying comparative analysis.

It is necessary to discuss separately the attitudes of society and of the political elite and government toward this relationship. In addition, we must analyze the current legislative foundation as well as the mentality of the top echelon of decision-makers within the context of their social background and/or previous experience.

The Georgian populace's (or society's) hope that the disintegration of the Soviet Union and Georgia's declaration of independence would give birth to a free and prosperous state did not come true. Perhaps, one of the biggest mistakes made by the opponents of the communist ideology was to identify the breakdown of totalitarianism with *deetatization*. This belief is fundamentally flawed because the collapse of the rule of *nomenclatura* may lead to the privatization of authority, but it does not itself establish statehood. Thus far in Georgia, relationships have only been feudalized and throughout the society, clientele relationships have been significantly strengthened and legitimized. This phenomenon does not foster the development of the Georgian state. Others factors impact the development of the Georgian state. Over a long period of time, Georgia ignored the importance of a decision-maker's perception of a situation, which in fact impacts the outcome of an action. Today, it is widely recognized that subjective decisions play a key role not only in a particular historic event, but also in the application of contemporary social, economic or political theories and strategies. These subjective decisions, then, influence the social relations between the elite and the "common" population on the one hand, and between groups within the "elite" on the other .

The foundation of these social relationships was laid during the Soviet epoch. The "Soviet people" were a patrimonial society with an upper stratum of patrons - *nomenclatura*- and a lower stratum of clientele - vast groups of population. Today, similar relationships are observed in the developing government and in organizations, be they public or private.

The following two types of relationships are the driving forces behind clientelism in Georgia:

- **Elite-population:** "Chiefs" (e.g. minister, director, and local governor) often display their sympathy toward experienced staff employed within the subordinated organization and attempt to retain "experienced cadres". "Old ones" are preferred to newcomers to the organization and there are few newcomers. Through his policy of protecting "his people" from unemployment and the loss of social privileges, the manager gains his staff's tacit support to pursue and realize his personal interests;
- **Elite-elite:** At the same time, there is a battle within the ruling stratum. It is essential to the ruling stratum to legitimize its hard-won high standing and to maintain the ability to obtain privileges

from the state as the monopolistic owner of resources. Therefore, everything is scrutinized - from whether a person is in a non-elected working group of the president's milieu to such details as where a person sat in relation to the president during an official reception.

After the end of the national movement period when the *nomenclatura* or elite's regime was restored and stabilized, attention shifted from the clientele relationship of elite-population to that of elite-elite.

1. Society

Now, we will discuss the rules of formal and informal behavior of the society, political parties, state institutions and *nomenclatura*.

The relationship between social mentality and institution building of the state system is an important problem. Considering the specifics of its historical development and the post-communist mentality, clientele relationships in Georgia have and still play the most important role both in everyday life and in the political processes of the country.

The current Georgian society stems from the Soviet period. Since relationships were rigidly systematized, for a member of the Soviet Union, individuality was possible only in personal relationships. And constraints on personal liberty were accompanied by the acute feeling of national discrimination. While the majority of Georgians admitted to be citizens of the Soviet Empire, they at the same time regarded Georgia to be their motherland. In Georgia, as well as in other small Soviet republics, nobody regarded the USSR as the motherland. The non-Russian population did not conceive the Soviet statehood as a realisation of its own statehood. This failure was demonstrated at every level, whether it be the ironic-nihilistic attitude toward Communist Party of the Soviet Union (CPSU) ideology (even among the *nomenclatura*) to the quasi-patriotic and anti-Russian feelings displayed by football fans.

The overwhelming majority of society was quite indifferent to the idea of statehood and considered concern for personal or relatives' welfare as the purpose of life. Since this concern and other forms of individuality could only be acted upon through informal relationships, deceit of the state system and neglect of laws did not arouse any feeling of shame.

This value evolved into the ideology of mass clientelism. An opinion formed that a "deal-maker" and "money-gainer" deserved the good life and that devotion to the clan system was of utmost importance. The boss' intellectual abilities or ethical standards became irrelevant, as is reflected in the so-called "folklore ideology" which employs numerous political anecdotes and a sarcastic attitude toward superiors. This folklore ideology, however, did not prevent clients from supporting the interests of their patron.

At the some time the Soviet society that put the resolution of all its problems on the state failed to resist the state's organized violence. Moreover, the propaganda of a socially-oriented society and the monopolization of all vital societal functions by the Soviet system created the illusion that the state would act indefinitely as the agent of public good.

The destruction of the Soviet system and the ensuing chaos caused first shock, then disappointment and distrust in our country. This reaction prompted informal relationships to gain greater importance. The collapse of social structures and the shift in focus to the interests of individuals transformed the individual from an agent (even the obedient agent) into a common functionary. Anomie (pursuant to E. Durkheim's definition) thus began. The failure of former Soviet philosophy led to total nihilism, especially amongst the *nomenclatura*.

Ironically, this nihilism induced apathy rather than a desire to build a new system. In this context, the attempt to introduce the western, mobile mode of living (which in its essence opposes apathy and nihilism) was doomed to fail from the very beginning.

Meanwhile, the emphasis on social relationships gained in strength. The state, which had spoon-fed Georgians with "care" for so many years, was unable to provide them even minimal living conditions. Efforts by individuals to attain even marginal vital resources through informal (i.e. clientele) relationships became increasingly important. As a result, the old strategies were challenged and old elite (e.g. scientist, intelligentsia, and *nomenclatura*) was transformed into participants in clan systems. As mentioned above, clannish thinking is characteristic not only of certain social groups, but also of de-classed elite, due to their apparent intolerance toward the socially marginal. In order to achieve goals and regain lost economic and social privileges, the elite did not even refrain from establishing contacts with the criminal world.

This clan mentality produced new types of social relationships; now the elite felt threatened by other groups. Tbilisian tribalism, which emerged among the Tbilisi elite, employed terms such as "old citizen", and "genuine Tbilisian," signaling social confrontation between different strata of the Georgian society.

At the same time, political and economic elite realized that their power needed to be legitimized, at least for appearance sake. Therefore, in recent years, elections have increasing taken on the role of trophy of democratic legitimacy. These elections, however, are not an attempt to introduce democracy. Rather, they lend legitimacy to political movements that represent the interests of clannish groups and which regard its mandate to control various scarce resources that are in hands of the state. At present in Georgia, the right to vote has no sense; it is the versatility in manipulating elections that counts. As to the "free media", when speaking about its freedom, one has to account for its non-formal relations with its hidden patrons.

Elections are not only used to perpetuate the power of the elite; they are dominated by clientele relationships. The *nomenclatura* widely applies classical clientele methods to the population, whether it be intimidation or some sort of economic compensation (e.g. paying salaries and pensions, distributing food products, repairing roads) in order to win elections. After the elections, events take a different turn. Political clans, who spent large sums on pre-election bribery or to fight with opposing clans, try to compensate for losses and to increase personal or clan property (in part to prepare for the next election cycle) during their time in office. The small number of politicians who intend to implement liberal values in Georgia are forced to deal with, and perhaps participate in, clientele relationships during pre-election battles as well as in the Parliament (if elected) otherwise they will be forced to waste all their energy and time in fruitless fight against clans. As O.Spengler said, if money fails to win elections (which rarely happens in Georgia), it will not fail to defeat the elected.

If elections of the former regime were used to advance ideological interests, the current Georgian elections have become the opportunity to advance personal interest. It is true that areas where civil society is weaker, e.g. enclaves with ethnic minorities, and those under absolute control of local autocrats, e.g. regions, there is a tendency for the population to act patriarchally and vote as instructed. Yet the new electoral style is gradually becoming "humanized" or "personalized". The population, especially in the regions, votes for local *nomenclatura* for a complex set of reasons. On one hand, people do not want to damage their relationship with the sole power affecting them, as it could be quite dangerous. On the other hand, people hope that they will have the opportunity to improve their own difficult living conditions through personal contacts with the representative of local clans and by fulfilling certain promises made to them.

It is naive to think that society understands nothing; the post-Soviet style of voting in which many electors vote against the government rather than for a candidate proves this point. Few citizens believe that their votes will really influence the results of elections, as the decreasing number of voters participating in the elections since 1990 indicates. Unfortunately, this decrease further lessens the voter's influence on the formation of these still evolving political systems. It also increases the capacity of current political elite to misrepresent the election results with illegal means.

It is an illusion, then, to think that voters of their own free will delegate power to Parliament to take care of their own concerns. As this system becomes more entrenched, the influence of the individual voter is continually reduced and only a shell of a democracy is left.

Elections legitimate the state's authority only in the eyes of the democratic community of the West. Leading western countries are very well aware of the current situation. Yet, they are delicate when they express their position on Georgia because Georgia is important geo-strategically and has achieved relative stability. Yet, one must question whether such an approach undermines the image of the democratic West amongst the population of Georgia and how it endangers Georgia's transition.

With the elections a farce, disrespecting the law is the only means the population possess to express its discontent about the situation in Georgia. In Georgia, we observe the flight of the law from life (evasion of laws) rather than flight of life from law (i.e. the effective enactment of the law).

There is an anthropological crisis in Georgia, according to M.Mamardashvili's definition. The population of Georgia either refuses to acknowledge Georgian statehood and its officials or it does not like them. Yet, the man in the street tries to find a common language with some representatives of the *nomenclatura* elite in order to secure himself at least a miser living standard. Clientele relationships, then, become the guarantor of social stability as illustrated by the economy of social energy and the absence of strong social cataclysms, even during a harsh social-economic crisis.

Currently, two tendencies are observed in Georgia: the lessening of the differentiation between the social and the economic and the gradual death of healthy social collectivism, including amongst the elite. The hope of some Georgian intellectuals that democratic reforms may be implemented without involvement of the population, or by forcing them, is not only groundless, but also rather alarming since it gives the ruling elite the moral right to justify any violence towards the population.

2. Political Parties

Politics in Georgia, despite its diversity, can be divided into two main groups:

- Political parties mainly uniting former *nomenclatura* and/or representatives of certain clans (regional, family, etc.). These parties have strong political, economic and, when needed, physical force levers to accomplish their goals;
- Political movements and groups with small membership. These parties are either active during elections or limit their activities to conducting local disobedience campaigns or ineffective protest actions.

True, there is a certain number of intellectuals in large as well as small political groups, who support the party for some ideological attitudes, but such groups are exceptions.

At the same time, a very significant tendency has arisen: the chances of survival for weak parties are rapidly decreasing. Some groups even cease to exist between elections or campaigns.

How, then, do parties survive in Georgia? They need a stable source of income. Unfortunately, this income can be obtained only by those parties actively involved with the executive branch and who incorporate public officials (corrupt or uncorrupt). These necessary clannish-political arrangements mean that the western formation of political party becomes a manifestation of the clans' battle for power. The uncertainty that the state will provide social guarantees since state institutions lack both the will and the funds to do so, prompts more mobile members of the populace to form these parties. Political parties have claim to the role of political elite and somehow manage to perform this role, especially considering the fact that it is too difficult to clearly define the activities of large party structures and state institutions. These parties, in turn, undergird clientelism.

Employing the classic definition of elite as *a social group striving for common interests which obtained the right of possessing resources*, the larger political parties are then, to an extent, the political elite. This blurry distinction between political parties and state institutions contributes to the parties' efforts to co-opt and exploit the role of the political elite in the clientele relationship.

Who then are the members of such parties? There are three distinct groups:

1. The **former Soviet *nomenclatura***, who managed to legalize financial means as well as social privileges obtained during the seventy years of the communist regime. This group is greatest in parties such as the Citizens' Union of Georgia and the Democratic Revival of Georgia. This group may be characterized as *bourgeoisie possessing "private" administrative monopolies* who gained it through abuse of state authority and corruption;
2. Currently, clientele relationships dominate the economic as well as social system. Representatives of medium and large business are actively becoming involved in politics in order to protect their economic right and the right to participate in battle with bureaucracy. As mentioned, the current characteristic of the Georgian economy at the current stage is the emergence of the ***bureaucratic bourgeoisie***. The entrepreneurs, therefore, are responding to the legal or illegal pressures exerted from the state by finding "umbrellas" (or roofs) amongst the influential representatives of the government. As western style lobbying is not yet practiced, informal relationships still act as its substitute;
3. Recently, the **local elite** has started to play an active role in political parties. Members of this group include deputies mainly elected in regional majoritarian elections, who control significant levers of government. This group has already begun to consolidate and will likely be a powerful force with whom the *nomenclatura* elite will be forced to reckon.

Thus, the new ruling class gradually establishing in Georgia includes members of state administration, state bourgeoisie and regional ruling groups. Fighting with each other for power, the groups create coalitions and consolidate into this new class. For they have one goal in common - all oppose radical change.

However, the government of this country is neither *nomenclatura* any more, nor elite yet.

Members of this new ruling class, however, face a significant problem: they have not yet gained social legitimacy, despite its efforts to legalize financial and social capital accumulated during the Soviet era. This group, however, is not trying hard to legitimize its power. Rather, it tends to rule the country by employing the totalitarian methods of the Brezhnev era.

Yet, we would argue, this issue will soon be in the forefront for the political elite. The transition of parties *from parliamentarian aristocracy to the enterprise of plebiscite type* is irreversible. Significant political forces in Georgia have achieved *recognition of honorary leaders*, i.e. in transition.

It is therefore important to touch upon the issue of leadership since the most significant figures in Georgia's recent history - Zviad Gamsakhurdia, Georgia's first president; Eduard Shevardnadze, the current president; and Aslan Abashidze, leader of the Autonomous Republic of Ajara - had or have signs of charismatic leadership. Every significant political party (including those, preaching liberal values) has been united around charismatic leaders.

The dominance of charismatic leaders sharply contradicts rational and traditional principles: it cannot tolerate patriarchal and patrimonial relationships, yet relies on it. A charisma leader, in its purest form, refuses to utilize material contributions, but this does not mean that charisma always rejects the acquisition of property. In fact, a charismatic party leader is responsible for raising the material means to support the party's power, be it in the form of patronage "gifts" or resources gained "formally" by peaceful methods of extortion.

Charismatic leaders rely on the principle of mass legitimacy and ultimately acquire traditional authority. An anti-authoritative interpretation of this form of leadership leads to rationalization. This is what distinguishes the *classical charismatic* leader President Gamsakhurdia from President Shevardnadze, who possess former *expert power*. In addition, charismatic leader must play the role of a social dictator in order to gain affection of the masses. In Georgia, a classic example is the anti-corruption campaign launched by Shevardnadze first in the '70s and then the '90s.

Shevardnadze has managed to embody all three forms of Webber's legitimate dominance: traditional, charismatic and rational-legal. So far as he performs two main responsibilities of charismatic leader - ensuring national political integration and imposing control over the state's administrative machine - Shevardnadze has managed to neutralize opposition groups, to "stain" his potential rivals by awarding privileges to them and by becoming an irreplaceable figure in current Georgian politics.

Yet, the Citizens' Union of Georgia most likely will not become a monolithic, presidential party. Within the party, there is too much fighting for revenue and power.

It is also difficult to convince a substantial part of the population that if opposition wins, "the hungry" will enter the government and the country will remain in the throes of chaos as they pursue their greed. The most powerful opposition forces, alike the Citizens' Union, are composed of former Soviet bureaucrats, those same political elite who perpetuate the clientele relationship and many of its leaders are among the wealthiest persons in Georgia. The key issue, however, is not the prospect of a "hungry" bureaucrat ripping off the population but rather that of a "fed-up" bureaucrat having no compunction about becoming richer by illegal revenues.

Party corruption is obvious at every level. It is most apparent in connection with all aspects of elections. The purchase of votes before elections is a blatant example of such corruption. A subtler example is that of the vague Law on Elections which actually strengthens the parties in power by virtue of the proportional principle: tenths of political parties participating in the elections in Georgia cannot overcome high elective barrier (first 5%, then 7%) and successful parties, according to the Law on Elections share mandates of outsiders. In 1995 and 1999 parliamentary elections approximately 1/3 of the population voted for the parties opposing the ruling one, which did not secure places in the Parliament and whose mandates were still largely misappropriated by the ruling party. Political parties often broker deals in the counting period to falsify the results.

In summary, for political parties in Georgia:

- Political analysis is disconnected from the general good;

- The society or the electorate does not play a role in politics.

3. Government Personnel

In order to examine institutional development and the general function of state institutions, we must examine the concept of a state system, the composition of *nomenclatura* and the mentality and norms of behavior of the *nomenclatura*.

To discuss the behavior of government, we must go beyond the form of a state structure. Should we rely only on this criteria it would turn up that the US, Nazi Germany and contemporary Georgia have identical state structures pursuant to Montesquieu's definition.

At the same time, the absence of a free social stratum to balance the power of the bureaucracy can be regarded as the cause of the concentration of power in the bureaucracy.

A state system strong in the juridical and material sense rather than in form attracts people with the necessary skills. If these people are utilized, even insignificantly, there are noticeable results. Hence, institutionalization without strong social legitimacy and control endangers the state.

An example is the Ministry of Internal Affairs of Georgia. First, the Soviet militia and then Georgian police, ceased its function of society's law enforcement institution and became the instrument of corruption. This, in turn, lessens the confidence of the population in state institutions; in a crisis, either local or provoked externally, this lack of confidence deprives the state of its most important lever - social support.

A developing society is perpetually in transition and does not embody a "traditional" value. When a society begins to function based on traditional values, it as a rule establishes a patrimonial type of government.

Frontal attacks on traditional values and expectations never bring results. Many countries will not eradicate, if unnecessary, the basic and to a certain extent, positive, traditional values. Therefore, there are four approaches to this problem:

1. Development of a structure within the decision-making process that would exclude those people from the *nomenclatura* who may experience pressure from their extended families or clans, while including persons who would offer fundamental and clear instructions and introduce plain and fast performance procedures;
2. Broad application of instructions emphasizing that public officials must act in this manner. This would be a basis for adaptation of traditional expectation to a new reality;
3. Introduction of effective promotion system for public officials at every level, with clearly defined ethical instructions and code of conduct;
4. Implementation of administrative measures that would make every leader accountable for any evidence of corruption within the scope of their responsibility.

Civilization brought about new forms of clientelism. A political leader under the republican order with the ability to delegate large functions actually possesses the functions of an absolute monarch. In countries where there are overly strong traditional values there is often a modified form of feudal relationships within state institutions.

The political culture of the Soviet society was based in part on the mentality of serfdom. And in the southern part of the Soviet Union, the squire mentality was added as well: the role of impoverished aristocrats propagating socialist ideas (e.g. Plekhanov, V.Ulianov-Lenin, F.Dzerzhinski, and others) was performed in Georgia by K.Chkheidze, K.Tsereteli, S.Orjonikidze, A.Tsulukidze. It is difficult to say what motivate this activity - the desire of social revenge, patriotism directed against bourgeoisie of foreign ethnic origin, or something else.

We believe that traditional forms of thinking as important as genetic origin. The sense of obedience to the head of the family or senior in the extended family has always been playing the key role in Georgia. However, nobody wonders how this privilege has been obtained.

The ideological, economic and political failure of the former Soviet order gave birth to a new fear, that of unemployment, expressed by the popular phrase: I have worked here all my life and what are they doing for me know. This uncertainty and fear of the future and the resulting desire to obtain guarantees of security from powerful people through personal contacts were and are too great under the socialist system and a modern Georgian society. Today, assistance from a powerful patron is considered a must for any success, whether it be admitting a child to a privileged school or occupying an important position.

The significant part of Georgian political elite is composed of *nomenclatura* of Khrushchev-Brezhnev intake. The *nomenclatura* of Stalin era participated based on fear and the instinct of physical survival, while those of the Khrushchev era participated by deal making and the desire to achieve material welfare). These persons started their activity in the fifties and sixties when the principle of physical liquidation of the opponent was replaced by the principle of neutralization.

While an official defeated in the battle for a high position dies in a social sense (e.g. a resigned minister or local governor), sometimes in a physical sense (e.g. S.Khabeishvili), this new type of terror is absolutely different from Stalin's. One of the basic principles of customary law - live well and give others (i.e., other representatives of *nomenclatura*) the chance to live well - has become a guiding principle in politics. The attitude of top government representative, including the President, toward this principle explains why representative of other clans, such as Jumber Patiashvili and Pridon Injia, and other opponents of the ruling power who are defeated in political battles are not liquidated. Social or physical liquidation happens only if the opponent endangers the political or economic power of the president or members of his group.

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Now we will discuss the composition of and rules of behavior of the *nomenclatura*, the primary agents of the state institutions.

We think it would be interesting to analyze the social indices of the ruling elite of the country. Unfortunately, limitations do not permit us to provide a comprehensive analysis, so will focus our analysis to biographical data of the leaders of the executive authority. We chose this factor because despite the increasing importance of the legislature, the executive authority is still supreme in Georgia, as well as most other post-Soviet countries.

The comparison of biographical data of leaders of the executive bodies (State Chancellery and ministries) holding their office from the end of 1997 to the end of 1999 reveals a number of tendencies.

The most notable tendency is that the average age of executive branch officials has decreased - 48 years old in 1997 to 47 in 1999. Besides, the number of ministers less than 45 years old is growing (from 41% to 45%). Compared to the age of Soviet era leaders, the change is considerable.

The social composition of executive branch leaders is changing as well:

- The number of city-dwellers, both Tbilisi citizens and those born in large cities of Georgia, has grown since 1997 (from 45% in 1997 to 50% in 1999 and from 18% to 23%, respectively). At the same time, the number of rural born has decreased (from 36% to 27%).
- According to studied profession, humanities comprised 18% in 1997 and 23% in 1999 of the executive branch, the natural sciences - 18% to 32%, and technical sciences - 36% to 23%. The number of lawyers (14% to 9%) and economists (14% both years) is small.
- In 1995, there was only one female minister. By the autumn of 1999, there were 2.

While the whims of the President may radically alter the current picture, these tendencies are characteristic of most former Soviet countries.

During this period, fifty percent of the ministers of the 22 ministries were changed. This is characteristic of current Georgian politics. It is primarily motivated by the desire to find a scapegoat to neutralize social discontent with the intentional (or unintentional) flawed state strategy.

Another important influence on the current state administration is the number of members of the former (Soviet) *nomenclatura*. There is a notable increase in the number of persons who began to participate in the government during the Soviet era as party secretaries or young communist party leaders, but never achieved the heights of their ambitions due to the collapse from 14% to 18% in 1997 and 1999. Members of new *nomenclatura*, who held no public position in the Soviet period and started their political activity only after the independence of Georgia, made up 45% and 41% respectively of the branch.

Thus, more than a half of the executive authority is comprised of former Soviet *nomenclatura*. The same picture is observed in most former Soviet republics and especially, in the countries of Central Asia and Caucasus. (In comparison, the share of the first two groups in Russia's executive branch is almost 40%, which is much lesser than in Georgia - 55-60 %). These are the republics where patrimonial relations were important even in the years when the Soviet totalitarianism reached its apogee.

It then is important to explore the role of tribalism and nepotism in the formation of the new Georgian *nomenclatura*. To illustrate, we will look at two different styles of effective authority in Georgia: the central authority of Shevardnadze's group and the government of the Autonomous of Ajara led by Aslan Abashidze.

There was a popular joke in the seventies in Georgia: the government of Georgia, in particular the Central Committee of the Communist Party, was the fourth district of the Guria region. There is a disproportionate number of executive branch members from Guria, President Shevardnadze's native region. While the population of Guria comprises less than 3% of Georgia's total population, the share of Gurians in the government makes up 41% and 36% (as of 1997 and 1999 respectively) of the executive branch. If this data is showing a certain tendency, then it could be said that the share of Gurians in the political elite is decreasing while on their account the role of representatives of other regions is increasing. However, it is apparent that tribalistic tendencies are still strong in the executive authority of Georgia today.

In the Autonomous of Ajara, different forms of patrimonial relations, that of classic nepotism. Fifty seven percent of top leaders in the executive branch (8 of 14), 54% of the legislature (43 of 80) and 33% of local government leaders (2 of 8) are close relatives of the Ajarian leader Aslan Abashidze.

Tribalism and nepotism, then are the norms for Georgian political elite.

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In discussing the elite's or *nomenklatura*'s norms of behavior, we much examine the attitude toward the law and personal relationships.

In Georgia, legislative anarchy, inconsistency of adopted laws and consequently, and indeterminate legal actions cause nostalgia for "a strong hand," provided that this "strong hand" should benefit them, among the *nomenklatura* or bureaucracy.

The bureaucracy itself is displeased with the current situation. Concerned about the uncertainty of their future, "off stage" and in personal conversations they often express the opinion that if they were to begin observing the law, it would be impossible to work. Thus, if the *nomenklatura* is required to observe all laws, an "Italian strike" starts (when everybody is fussy, but nobody works).

It becomes difficult to observe any connections with personal relationships, as both client and patron try not to disclose the relationship since it is taboo.

While this type of study has not been conducted in Georgia, it has been in many post-soviet countries. Similarities to Georgia permit the assumption that the studied situation is the same in our country, with a certain degree of deviation. As example, we will examine a study conducted in Russia by the *Constitutional Research Center of the Moscow Foundation of Social Sciences*. Sociological surveys carried out within the framework of this research, showed that:

- A portion of officials (35% in Russia) believe that promotion is impossible without personal contacts and that promotion depends first on personal contacts and then on mute fulfillment of instructions;
- Young and newly appointed officials consider clientelism a natural phenomenon, while old and experienced members of *nomenklatura* have negative attitude toward it (in Russia, 55% of young or newly appointed are for it, and only 30% are against it; among the old ones, the figures are 25 and 65, respectively);
- The longer the time in office, the stronger the official's belief in the importance of personal relations for promotion (personal relations ranks the highest, then the factor of having common motherland);
- The strongest supporters of observance of the law are Gorbachev era *nomenklatura*. The older generation and the newest *nomenklatura* are "personalists" in their approach to the laws;
- The overwhelming majority of officials prefer to enter personal negotiation rather than pursue legal remedies when involved in a conflict with the senior.

Clientelism, then, is rooted into the consciousness of most officials. From a psychological standpoint, it can be explained due to the long-term relationship between patron and client and habit. But the social factor is no less, if not more, important. A violation of informal laws and rules provokes the danger of sanctions being used against the violator, whether it be dismissal or physical liquidation, in extreme cases. It is symptomatic that, due to the importance of position, 60% of surveyed officials experience uncertainty, insecurity and fear for their future. In Georgia, this is accompanied by the influence of tribalism and nepotism.

Bearing in mind this situation, the old as well as new bureaucracy resists change, even if for different motives. We think that this fear of losing privileges due to change must be a cause of bureaucrats' negative attitude toward qualification exams, as was observed during the reform of the judicial system in Georgia.

4. Legislative Basis

One of the peculiarities of 1995-1999 Parliament, the fourth in Georgia's history, was the lack of legislators who would be law abiding people and of such laws which would create the an unfavorable environment for corruption. Nevertheless, it would be unfair to ignore the steps taken in this direction. In particular, the Parliament passed:

1. The Law on an Interim Investigation Commission;
2. The Law on Conflict of Interest in Civil Service and Corruption;
3. The Law on Lobbying;
4. The Draft law on the Special Service for Combating Corruption Established by the President of Georgia;

and many other laws, which indirectly provided means to fight against corruption. Yet, in most cases, these laws do not work due to the imperfection and ambiguity of the laws, as well as the absence of the environment needed for their application.

The methodology we will use to assess these laws and draft laws is a new technique of legislative assessment known as the system of cost-benefit analysis of draft laws (A-C-B). It allows us to systemize potential effects and results due to the adoption of a legal document through various means. In A-C-B analysis, preference is given to four large thematic blocs of variables related to:

1. Human and Constitutional rights;
2. Transparency of public activity and ethical aspects;
3. Economic, environmental, social and institutional aspects; and
4. The most pressing requirements of the civil society and population in general.

It is noteworthy that a legal mechanism, once implemented in life, may not necessarily influence all components of the mentioned four blocs. We should be able to predict precisely which of these components will be affected.

Under the A-C-B system, clientelism and nepotism (as a priority) belong to the second bloc, as it belongs to the realm of ethical normative acts. There is only one piece of legislation, the Law on Conflict of Interest in Civil Service and Corruption, which addresses nepotism, but nothing addresses the ethical norms of clientelism. The Law on the Structure of the Executive Authority and Rules for Activity does not offer ethical legislative norms or criteria for transparency. The law defines the system of executive institutions, the rules of formation of these institutions, and legal principles of governmental and organizational activity, but does not even hint at ethical norms for representatives of top executive echelons.

Hence, the results published in the information bulletin of the Interim Investigation Commission on Combating Corruption should not be surprising. Many cases investigated by the Commission offer classic examples of the clientelism and rent-seeking widespread in the executive branch of Georgia., including: "Results of the Study of the System of the Ministry of Post and Communications", "Results of the Study of the Allocation, Spending and Repayment of the Turkish credit", "Materials of the Study of the Payment of the Cost of Natural Gas Received from Turkmenistan". Each case is a classic example of untargeted and unlawful spending and misappropriation of multi-million GEL worth of state property by the clientele structures formed within the ministries and institutions by the managers of these institutions.

Most interesting among the anti-corruption draft laws is the Law on Special Service for Combating Corruption Established by the President of Georgia. The law specifies legal and social guarantees and duties and responsibilities for the members of this Service. It fails, however, to provide either a criterion for admission into this very important state structure or a code of conduct for its member, i.e. ethical norms to be observed. This seems to be regarded as the prerogative of the ordinance of the Service itself. By not regulating this aspect of the service, the hiring process and the activities of the staff become vague and nontransparent. Another prerogative of the Service mandate is publicity of the Service's activity, quite important for a body entrusted with such great power in order to gain public or social support.

These laws give rise to an often-observed practice in the Parliament of Georgia, and represent a legislative initiative by clientele structures to create a ministry or institution. After receiving presidential approval, the law is submitted to the Parliament, and is adopted. Its enforcement results in the establishment of yet another executive body. After a while, Parliament adopts a new legal act that invalidates the law and its corresponding executive body.

This type of situation was created with the Law on Public Procurements. The law is of great import to combating corruption. World experience shows that budgetary losses due to public procurements make up at least one third of the amount originally allocated for the purchase; the share is larger in Georgia. The law was intended to regulate the process of procurements and to create an institutional framework. But the Ministry of Economy monopolized the regulation of this process, even though there is no other known practice that permits one governmental body to solely regulate state procurement process and exclude independent procurement organizations. Six months later, the adopted General Administrative Code invalidated the Law on Public Procurements for which the clientele of the executive body lobbied.

The Parliament of Georgia has an abundance of such laws which meet quite high standards in their importance, content, and quality, but which will never be implemented in the existing legal environment. The key to this paradoxical situation is found in the social and political environment. The Law on Lobbying offers an example of how this environment effects laws. The law turned out to be stillborn and will not be exercised due to the current low political awareness and social activity of the society. Administrative clientelism, which replaces the practice of lobbying, eliminates any need of enforcement of the law.

When the power of state clientelism becomes absolute, a very interesting transformation of clientelism can be observed. In this case, the clientele elite or the clientele of political elite is able to "solve" problems like the implementation of the Program on Combating Shadow Economy approved by the President. The Program and its implementation schedule, which was worked out and approved under the direct instruction of the President, have been carried out for a year and a half at the Ministry of Economy. Over this period, none of the governmental bodies inquired as to the implementation or compliance of this program. The state political clientele succeeded in sabotaging this very important anti-corruption project of the President because it threatened the status quo.

5. Actual Performance

Now we will discuss the mode of functioning of state institutions staffed by the political elite.

The peculiarity of the post-Soviet, including Georgian, governments is that the leadership principle of the socialist epoch remains. When every new general secretary or first secretary begins, he embarks with the idea of collective leadership, and after strengthening his own position, shifts to independent governance.

The gradual transformation of the post of the Head of the State into that of President illustrates this point. This shift goes beyond the title; it is a substantive shift from the more parliament-dependent post of the Head of the State to the more independent post of the President. This phenomenon is dangerous as this development creates a greater dependency on personal factors; as the President is invested with more authority independence, the question of who will succeed the President gains in importance. The analysis of the development of 27 Central and East European post-communist countries proves that strengthening of the sole authority prior to adoption of a new constitution is very dangerous, irrespective of the holder of such authority.

Proper regulation of the formation of new legislation and the growth of the level of legitimacy of state institutions in society's eye depends on structural or essential changes in the executive authority and the degree of powers delegated to it.

As the power of old structures increases, the process of economic reformation is slowed. This, unfortunately, is the experience of Georgia, as well as some other post-communist countries (Armenia, Azerbaijan, the Ukraine, Kazakhstan, Moldova and others).

Today, it is obvious that in the battle between the legislative and executive branches over reform, the latter is winning. But this victory resembles that of Pyros. There is a large internal opposition within the executive branches, and frequently it occurs when, under the cover of devotion to the president, members pursue personal policies. There are also frequent cases of neglect and violation not only of presidential decrees but also of laws and the Constitution. Vague, inconsistent, and frequently changed laws further aggravate this battle.

This does not mean that this is a classic bureaucratic state in its classical sense. Rather, the executive, who has the right to possess resources, and legislative authorities, who seek to lobby for clannish interests, are only shields for the activity of informal interest groups operating under illegal goals and methods. This same connection exists between the economic interests of clans and the foreign and domestic policies of Georgia. Illegal tax allowances to untargeted utilization of scarce national resources and international assistance for satisfaction of personal requirements are examples of how the abuse of government continues.

Despite an outward display of the strength, the ability of political leaders to keep clannish groups under their influence is decreasing. The top governors are no longer able to govern the cadres. Moreover, they have become dependent on these cadres, or to be more precise, bureaucratic clans to perpetuate their power. At the same time, advancement to the rank of a patron becomes a necessary prerequisite to satisfy his clients' requirements. Thus is clientelism formed, in its classic sense.

It seems paradoxical, but patrons often have to cater to clients' excessive interests and sometimes act against their will and damage their own interests to satisfy these interests. Under these conditions, the norms of behavior are defined by the established system of informal relations (i.e. clientele relationship) and its strongest tool, corruption.

Corruption in official bodies is often manifested by the transfer of public funds and other resources to favored institutions. At the same time, the government regularly uses the specter of corruption against political opponents and to strengthening its power. This is not only a violation of ethics. The consequences of corruption affect the everyday life of the population.

The ambiguous state policy on tax collection and allocation of resources (including scarce budgetary resources) illustrates how these behaviors damage the state.

In the 1998 budget, taxes which are paid by the groups of population, such as VAT, customs, and excise made up 600 million GEL of the government revenue, while income and profit taxes which are mainly paid by wealthier groups - 70 million GEL of the revenue.

Illegal allowances and privileges play an important role in the process of allocation of resources. For example, the reduction of the Bolnisi region tax service's budget performance target 9.5 times from 1997 levels indicates strong illegal lobbying on the part of Bolnisi. This example is not exceptional, unfortunately. Further examples of illegal methods in the decision-making processing:

1. The system of "offsets" was annulled. Offsets imply the return of VAT if there is no profit as a result of the sale of goods at a lower price. Firms with powerful "umbrellas" were deprived of the opportunity to increase their revenues at the state's expense since misrecording income in the accounting books had no advantage. This happened only in theory. In practice, only non-governmental and other non-budgetary, "orphan" organizations, which previously paid income tax in full and whom the state owed due to zero rate taxation experienced losses;
2. The privatization process of Customs Service, awarded to the British company ITS, virtually failed. ITS representatives are denied access to points of entry, not only in Tskhinvali or Ajara, where central government decisions are routinely ignored;
3. A form of increasing illegal revenues is the transfer of non-tax profits of "protected" firms to the special accounts rather than to the National Bank account. Article 18 of the 1998 budget mandates that the state control these accounts until October 1, 1998. This mandate was not fulfilled.

Refurbishment of offices and the purchase of foreign cars for *nomenclatura* when salaries have not been paid for months offer additional examples of how these relationships adversely affect the population. Clientele groups execute these schemes under the shield of commercial activity or state institutions.

Thus, members of the *nomenclatura* enter into a "social contract" - a relation based not on the fear of terror but on the possibility of receiving certain rent in return for devotion. At some stage, the *nomenclatura* supported reforms in order to legalize its illegal privileges that resulted in the transformation of state companies into joint stock companies. This same *nomenclatura* now opposes the further advance of the process of reforms because it does not want to yield its secure financial and administrative standing.

Currently, the directors of joint stock companies and representatives of the government are increasingly clashing over taxes that the enterprises are allegedly hiding. This conflict is occurring as public officials are witnessing increasing societal dissatisfaction with the state's failure to fulfill its financial and other obligations. No longer able to extort rent from these enterprises, the *nomenclatura* now gives preference to these new entrepreneurs over the directors of the former state enterprises. Naturally, the issue is not a collection of legal taxes - under strong administrative mechanisms it is not difficult to directly or indirectly exert pressure on private, commercial structures in favor of own pocket. Thus, patrimonialism solidifies the clientele relationship of politics and business as all keys of industry are in government's hands.

Weakness of political will results in the failure to fulfill laws and juridical norms, thereby reinforcing the selfish mentality within the government. Public officials view any official position as a personal economic resource to be used to maintain power. This may be seen especially clearly during elections.

In this very setting the government tries to strengthen the image of the country as of legal state among the international organizations and this partially meets certain requirements of the population and at the same time, rises the degree of legitimacy of the authority externally. In reality, the decline of the population's

confidence toward the state is apparent. Public polls conducted under the aegis of USIA demonstrate the crisis of public confidence in state institutions. In 1998, as compared to 1996, the number of people who do not trust in government, increased:

Percent who do not trust in	1996	1998
legislative authority	58%	70%
executive authority	44%	75%
judiciary	66%	74%
local governance	53%	67%

Thus, a comprehensive system of post-*nomenclatura* patronage is forming in Georgia i.e. that is characterized by the social inter-assistance mechanisms, dominating style and actualized capacity of governance.

Pursuant to R. Alemann's definition, the creation of the gray model of corruption is underway. Resting on society's adaptation to evil, this model emerges in constitutional and transitional countries. It differs from the white model of corruption which employs coercion of the society which is characteristic of the totalitarian patron-clientele system, and the black model which employs hidden abuse of legislative norms widespread in post-industrial countries. Our society, however, is very well aware and can confront this corruption, but we instead strengthen it by our overall apathy.

V. CONCLUSIONS

What conclusions can be drawn from the above said?

We will discuss individually the situation in the state institutions and society at large, as well as the attitude of international organizations toward the mentioned problems.

When describing *state institutions*, most noticeable is the fact that contemporary Georgian bureaucracy, which can be regarded as heir of the Soviet *nomenclatura*, has clear clientele-feudal tendencies. Today, all forms characteristic of patrimonial society - nepotism, regionalism (tribalism), clannism, and regional and national clientelism - exist in the state institutions of Georgia.

Scrutiny of the reasons of corruption in the government of Georgia proves viability of those traditional values and customs that contradict the requirements of the modern bureaucracy. The majority of bureaucrats adhere to two sets of values: although raised on the norms of modern organization, deep in their hearts they still tend to the traditional norms. In fact, the power of tradition is so strong that when a bureaucrat does not acknowledge traditional values, he experiences constant pressure to yield to these values and the transmitters of these values - personalities and the society. For example, in order to not be accused of ingratitude, politicians and top public officials must incorporate close relatives and friends in their retinue. This demand causes complications and creates personal interest-oriented forms of relationship in the execution of legal requirements of a modern democracy.

Generally, such patrimonial processes become very weak when the society has confidence in institutional systems. It is ideal for institutions to be grounded in trust than that they be very strong. In Georgia, the traditional lack of trust has prompted the current situation that fosters corruption. The protectionism that exists in Georgia is the next stage of the inherited and strengthened patrimonial relationships.

Western reforms, especially the privatization process continues to be the bureaucrat's most important source of income. The first stage of this process (when enterprises obtained more freedom because the state has released them) provided favorable ground for strong clannish relationships.

Due to a number of economic, social and political factors, the nostalgia for Soviet era and nationalism is still strong among the *society*. However, all, except a radical minority, are skeptic that the former system will be restored.

Civil society, and especially the third sector, subsist off western donor assistance and have no significant influence on the public opinion. This sector, if we paraphrase a Russian joke ("третий лишний"), has a role of the fifth wheel for the society.

Under such conditions, the strengthening of modern clientele relationships is the only alternative to totalitarian regime. The creation of Mafia-like organizations in a number of structures is the nature of society, rather than a marginal phenomenon, which endangers the state. The opinion widespread among certain groups of society and shared by us as well, is that the main problem is created by society's lost confidence in institutional systems, which permits the modern clientelism and formation of other patrimonial relationships.

The cause of such distortions is society's ignorance of the reform process. The reforms are, as a rule, launched and implemented by upper echelons or *nomenclatura*. The society is not much involved in this process and perceives any change as an action directed against it. Such a situation is observed in all post-socialist countries, as the collapse of traditional structures and resulting absence of traditional constraints results in anomie.

The lack of openness of state structures and the *nomenclatura* role as "expert" decrease society's confidence in the state. In addition, the mostly unaltered old state structures and mentality of political elite further exacerbate this situation.

However, the classic clan mentality does not exist in its pure form. The mechanisms of the legal state are slowly, but gradually developing, as are the free press and third sector. Thus, the statehood logic is also quite strong in political and economic organizations.

What is the role of western international organizations in this situation?

The nineties in Georgia were marked by the change of participants in international clientelism. Before, the Soviet bureaucracy was the patron; now various international financial organizations have enabled the Georgian state bodies to be the patron. The support of donor capital has allowed the state to reproduce and strengthen clientele relationships.

However, the World Bank and WTO, as well as other large economic organizations, recently launched a large-scale campaign to combat corruption in Georgia. It is difficult to predict how this campaign will influence the situation in Georgia. In part, the outcome depends on the firmness and consistency of the international institutions in executing it.

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Considering all above said, we draw the following conclusions:

- When studying the mentioned problem, it is necessary to bear in mind the historical development of the traditions of governance of a country or a region. In places where the tradition of statehood is weak, the population creates its own informal structures to compensate. Yet, the international crimes committed by the mentioned institutions often raise suspicions about jurisdiction and sovereignty of a developing state;
- Georgian clientelism is of a hybrid nature and composed of traditional and modern forms. The process of privatization of post-*nomenclatura* institutions and the molding of clientele (individual or collective) relationships into the sole ruling power is underway in Georgia today;
- Georgian society must choose between stability and development. Agents of the clannish relations, who have obtained the right to own resources and benefit from it want to maintain stability in order to complete the legalization of their privileges. At the same time, stability in the form of a permanent and not interim Constitution or the image of rapidly growing democratic state, is perceived not as a prerequisite to the development of the country, but rather as a means to maintain the current situation;
- Under such conditions, corruption and underdevelopment of laws represent a permanent problem due to the patrimonial legacy, rather than a transitional phase. It is unlikely there will be some improvements in the nearest future unless actual and radical measures are taken;
- In this light, there are two possible outcomes: the social strata shall either die or find a new form of development. The society as well as the state will comprehend the principle that *democracy is a selective polyarchy based on merits* and will then take further steps.

VI. PROSPECTS FOR DEVELOPMENT

What course can the development of Georgian statehood take?

1. It is necessary to consider the role of social and economic factors which strongly foster patrimonial relationships in the process of institutional development of the state system.

A. **Social:** There are two distinct processes of development observed in the political elite of Georgia - a shift from *nomenclatura* to state capitalism, and the formation of a group lobbying system from the individual "deal making" system.

A novelty is also observed - the danger of a new (regional) clientelism has become apparent. The increasing confrontation between the Tbilisi and Ajara clans offers an example.

B. **Economic:** The economic factor is as important. If corruption is of a systematic nature, the reforms will not bring actual results. Rather than revenues being lost due to administrative measures, the bureaucrats will seek new "means" to satisfy their ambitions or requirements, and high officials will intimidate bureaucrats of medium and low standing by applying mechanisms of internal audit.

2. The current status of the Georgian state resembles a pre-Revolutionary situation characteristic of developing countries. When vast groups of population are alienated from the state due to of weak state institutions and economic or social crisis and the criminal world grows stronger, the development of clannish systems implies great danger of social commotion or political anarchy.

In such conditions, as soon as favorable moment occurs, a "Fidelization" (overthrow of Batista regime under leadership of F.Castro in Cuba) or "Khomeinization" (political riot against Shah's patrimonial regime in Iran) of the country may occur. A new government in this manner would regard the West as a Pandora's box, bringing all misfortunes. This government would then takes measure, which would effectively isolate Georgia from the world.

3. There is a different possibility: that of the implementation of the institutional reform along with a well organized fight against the clannish systems. Such action would gradually recover the lost confidence of the society in the state. This new confidence will become an effective lever for the political elite to achieve its goals.

When discussing institutional transformation, it must be remembered that this is not a static goal but rather a continuously renewable condition. Attainment of a certain condition in time or space cannot be set as a goal. The modern bureaucracy no more fits in the frame of Webber's definitions. New systems of control and management are developing as the government continues to operate. The state must incorporate modern requirements such as human rights. A new tendency has become apparent in the world: bureaucracy is being replaced by think tank. There is a need, then, to attract new, qualified people, and usually such intellectual people have democratic mode of thinking. The process of democratization of the state system is underway.

4. Support of the society through the strengthening of the civil society is of great importance to the evolution of the Georgian state. Growth of the social sector deteriorates the state's monopoly on power. The creation of intellectual islands within the population through the support of individual social activities and the recognition of their existence and significance become one of the main pillars of the state development.

Of course, one cannot rely only on the education of the society. A whole range of structural adjustments is needed. Civil society is one of the important factors for the existence of the modern developed state, but must be accompanied by other elements.

The traditions of the country must be addressed as well. For example, an increase of the authority of the governmental bodies may lead to tragic results in our country due to the weakness of an adequate legislative foundation and of mechanisms to implement it.

Thus, there arises a traditional question - *what to do and how?*

5. The solution strongly depends on who implements the transformation. It is necessary to identify who will be the agents involved in this process and what duties and responsibilities they will be assigned.

That is what will determine how the situation will develop. If there were political will, realistic planning and well-developed strategies, the current situation in Georgia could be described as a very painful process of transition rather than a hopeless one.

VII. RECOMMENDATIONS

All above said provides an opportunity to identify priorities. The activity according to these priorities will enable us to implement institutional changes, increase interest of the society in state policy and level of legitimization of state institutions and reduce the influence of patrimonial relationships on the society.

If these problems are neglected, we face dire consequences. N.Machiavelli said "The evil shall not be given a chance to grow in order to prevent a war; thus war cannot be avoided, but only postponed for a certain period of time".

The solution to the current created situation is to promote the liberal state concept and the accompanying mentality and systems. The strong state should be established not instead of the reform but to implement reform.

In our minds, the state's behavior, policy and resulting performance is the main cause of the mass apathy and complete distrust of the state, which plagues Georgia today. Those who remember the mass excitement and overwhelming euphoria prevailing in the society in late eighties, will share our opinion that the Georgian state (which includes the era of Gamsakhurdia) missed its best opportunity to utilize this always ephemeral euphoria to implement fundamental reforms and withstand the most painful transition. Now, after this euphoria has dissipated, Georgians will find it difficult to persevere through long and painful real reforms. And if they are to succeed, these reforms must be properly implemented immediately.

The state should take the first step in this direction. We do not agree that our society is yet do not prepared for democracy. Until state, encouraged by the population, begins to reform itself, more effective performance cannot be expected.

To move towards a state that implements reforms, we must scrutinize and understand the reasons why state institutions are ineffective and why the *nomenclatura* behaves in self-interested and harmful manner. In order to succeed, the state must reclaim public or social support for the bureaucracy by providing it with the necessary tools to be ethical and effective.

Claims should be directed toward the state system and attempts made to improve its deficiencies. In the process of institutionalization, the state should pay attention to three basic areas:

A. Liberalization and Goals of Governance

1. Today, transparency (e.g. accountability and protection of human rights) of the state becomes a priority not only in the social and political but also economic processes. The new *nomenclatura* shall be strongly encouraged to meet this requirement.
2. Another requirement of the modern state is a strong system of control. Improper policies of spending revenues and resources, whether from the budget or international assistance, have dire consequences for both the population but also *nomenclatura*. The waste of scarce resources by the governments of African countries which resulted in frequent social or clan revenge illustrates the destructiveness of a lack of resource control.
3. Economic liberalization and reform of the management of state institutions are connected. In the eighties, reforms of state institutions in the west countries such as "client-oriented service", decentralization, and privatization of service were initiated by members of the financial bureaucracy.

4. One of the main objectives of the state building is to establish and enforce legislation and social welfare systems.

B. Structural Changes

1. This liberalization of the state should be executed along side structural changes such as the reform of the administrative body, a development of a state strategy, the fight against corruption and rotation of staff.
2. It is necessary to combat the feudal and patrimonial relationships. The state shall prevent the concentration of power in hands of the informal owners. The reduction of bureaucratic body, the delineation of the functions of state bodies and, the proper spending of international loans will accomplish this goal. These steps should not be executed simultaneously in all state institutions, especially in those charged with law enforcement, as the resistance of the bureaucracy may create a real danger of destabilization.
3. The mentioned measures should be implemented in the setting of increasing social activity. It is necessary to establish mechanisms of legal regulation in the post-socialist state institutions and encourage establishment of independent intermediary institutes (trade unions, etc.) without involvement of the state.
4. The state must establish mechanisms of internal audit along with legal changes to ensure compliance with the control regulations - in order to assess the execution of the laws, which being in abundance and compliance with international standards, the government is very proud of.
5. The legislature and judiciary should intensify their oversight over the executive branch, especially in such spheres like human rights, agency oversight, and legal audit of expenditures. Even insignificant success in this direction will contribute to the improvement of government transparency and society's confidence in the state.
6. The state and society should cooperate to improve transparency of the state institutions by reducing the number of officials, clearly defining the bureaucracy's function, determining ethical norms of engaging employees, establishing and improving internal and external audit mechanisms, and setting an ethical code for *nomenclatura*.

C. Protection of Bureaucracy from Illegal Pressure

1. When executing these measures, the interests of the bureaucracy should be taken into account. The reduction of the bureaucracy should result in a significant rise in salaries so that they become the real material income of the *nomenclatura* who remain after a fair selection process. In this case we have to follow the principle that when the society pays worthy salary to the government for functioning, the society buys a layer protecting against patronage and bribery.
2. It is also necessary to allay the bureaucrats' fear of the future. It is a paradox, but one of the most unprotected groups economically and socially in the bureaucratic state is the bureaucracy itself. This reality forces the bureaucrat to look for informal sources of income on the one hand and on the other rely on patrimonial (in our case - clientele) rather than state structures for protection.

3. From these measures, devotion to the patron (e.g. boss, chief, senior bureaucrat) shall be replaced by the devotion to the law. This will come true if the law itself assumes responsibility to protection of bureaucrat's rights.
4. We believe that the reduction coherence of the bureaucracy class, retraining of bureaucrats and development of necessary skills are prerequisites for the successful implementation of reforms. The features characteristic of *nomenclatura* which are antithetical to liberal thinking - like law abidance, social unity, qualification, assignment of duties and responsibilities - can be put into service of liberal reforms. The bureaucracy, therefore, must perceive its role in the context of statehood. Otherwise, the statehood will remain to be an existential rather than rational issue.

* * *

Along with the reformation of the state, much attention should be paid to such actors as the *society* and *international organizations*.

Society

1. Society's indifference, its distrust of the state, and especially its animosity toward the state system are determined by such factors as:

- Illegitimacy of the authority (socially rather than legally);
- Grave economic situation;
- Corruption in the state system;
- Abuse of power by the bureaucracy.

2. This situation can be overcome by strengthening the most active part of the population, the agents of civil society such as the free mass media and non-governmental organizations. In Georgia this force, as the "fifth column" of the western democracy, could eliminate the dominance of patrimonial order.

International Organizations

1. The position of both political and financial international organizations is key to this reform process. In Georgia, the *nomenclatura* has somewhat arrogant attitude toward the population. The bureaucracy is not likely to self-impose radical changes; it should be encourage or forced to do so by domestic civil society and international organizations. In the general contact, western countries should decide how they envisage their future relationship with the developing world, including Georgia.

2. In Georgia, international donor organizations and developed countries should first and foremost emphasize the institutional development and the battle against patrimonial relationships. Auditing the international assistance, applying international auditing standards and promoting the establishment of internal audit and inspection mechanisms will greatly assist the battle against clientele relationships. These efforts would also prompt greater self-criticism within the state structure.

3. If the international community chooses to turn a blind eye to these problems for strategic political purposes, which is, unfortunately, the case today, it will find that its assistance will continue to be wasted; eventually, after a considerable waste of time and money, it will see our society to come back to the initial position.

4. As to the ability of international (western) organizations to exert pressure on the state to reform and form a stable and developed society in Georgia, they possess the most powerful lever there can be: they have money.

5. In the efforts to transform the state system, the West has a faithful ally - the third sector, which is dedicated to implementing liberal, democratic values in Georgia. With the efforts and assistance of these two powers (civil society and international organizations), the Georgian state will be able to achieve a set goal of building a modern statehood.

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Summary

The paper consists of 7 sections.

Introduction deals with the essence of the problem and the role of clientele relationships in the process of institutional building in Georgia.

Section II - Clientelism - introduces the definition of this problem and discusses the linkage between clientelism and corruption. The section highlights the reasons and prerequisites, which provide a fertile ground for the extension of clientelism in our country. It describes the nature of modern clientele relationships existing in Georgia, those signs that make it similar to or different from the same phenomena in other countries.

Section III - Institutional-economic (Social) Theory - reviews such dogmas of institutional theory as the ownership right, formal and informal institutes, trans-excite costs, legal and illegal interest groups, rent-seeking, means of performance of political system.

Section IV - Reasons for Crisis and Solution - discusses the attitude of society, political parties and bureaucracy toward the mentioned problem one by one and analyses the legislative basis, which ought to regulate institutional relationships and prevent informal relations from extension within the governmental bodies. Ineffective legislative basis is analyzed by applying A-C-B method and actual means of performance of the state system are discussed.

Final three sections - *Conclusions; Prospects for Development; Recommendations* - sum up the study conducted for the purposes of surveying current situation in Georgia and predicting the prospects and provide recommendations, which, in author's view, should contribute to the solution of the existing problem.

The paper provides with the following conclusions:

1. Within the state institutions of Georgia there exist all forms characteristic of patrimonial society: nepotism, regionalism (tribalism), clannism, clientelism at the regional and national levels. The study of the causes of corruption observed in the governmental bodies underlines the viability of those traditional values and customs, which are incompliant with the requirements of the modern bureaucracy. The process of privatization was and is one of the most significant sources of gaining wealth for the *nomenclatura*. The process of privatization of post-nomenclatura institute and formation of clientel (individual or group) relationships into a ruling power is underway in Georgia;
2. The main problem is the reduction of society's confidence in institutional systems. The civil society is weak and actually survives due to western donor assistance. Its influence on the public opinion is still insignificant. Development of clannish systems in the setting of weak state institutes and alienation of vast groups of population from the state as a result of economic and social support, strengthening of civil society is of utmost importance in this case and the first step in this direction must be made by the state.

The state system should be reformed in three directions:

1. *Liberalization of Governance* - today the priorities must be transparency of the governmental bodies, protection of human rights by the state, strengthening of controlling system;

2. Structural Changes - the mentioned activity should be carried on along with structural changes - reformation of the administrative body, development of strategy, fight against corruption and staff rotation should be carried out in contact;
3. Protection of Bureaucracy from Illegal Pressure - when carrying out the mentioned measures the interest of the bureaucracy should be taken into account too. Reduction of the bureaucratic body should result in significant raise in salaries - real material income of the *nomenclatura*. Another problem of bureaucracy is fear for its future, which should necessarily be overcome. Devotion to the patron shall be replaced by devotion to the law. This will come true if the law itself assumes the responsibility of protection of bureaucrat's rights.

The mentioned measures should be implemented under increasing social activity - transparency of state institutions, reduction of bureaucratic body and identification of its functions, establishment and elaboration of the mechanisms of internal and external audit, development of ethical code of *nomenclatura*, are those spheres, where the state should closely cooperate with the society.

The position of international (political and financial) organizations is of utmost importance in this process. International donor organizations and developed countries should, first of all, make emphasis on the institutional development of Georgia and fight against patrimonial relationships. Turning a blind eye to these problems for strategic political purposes will not be effective and after spending much time and financial resources will take us back to the status quo.

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