# Clans in Transition: A Political Economic Analysis

by

**Klarita Gërxhani[+] and Arthur Schram***

## Abstract

It is often important to take country specific institutional features into account in a political economic analysis. We do so in an analysis of Albania. It is argued that the politico-economic system there is characterized by the existence of clans. We study the role of clans by estimating vote functions. The results show major differences across clans in response to government policies. Estimation without taking account of clans leads to a bias in the conclusions. The existence of clans may be related to poorly functioning formal institutions. Therefore, clans are more prominent in countries in transition than in established democracies.

[+]Amsterdam Institute for Advanced Labor Studies (AIAS)/(ASSR), University of Amsterdam, Plantage Muidergracht 4, 1018 TV Amsterdam. Email: k.gerxhani@uva.nl.
*Center for Research in Experimental Economics and political Decision making (CREED), University of Amsterdam, Roetersstraat 11, 1018 WB Amsterdam. Email: Schram@uva.nl.

## 1. Introduction

Over the last decade-and-a-half, the political economic development of previously communist countries has been sensational. The combination of political democratization with economic liberalization is quite unique in history. For scholars of (political) economics, it is a challenge to try to understand the finesses of what is happening. To do so, an application of standard research methods to a cross section of these countries for general insights or to specific countries as case studies can help us understand the processes at had. Prime examples of such research are Shleifer (1997) and Fidrmuc (2000).

In this note, we focus on the political economic development of one country in particular, to wit, Albania. Notwithstanding the advantages of generalization, we believe that it is important for the understanding of many political economic phenomena in transition countries, that country-specific institutional features are taken into account (*cf.* North, 1990). In Albania, the political culture and institutions are characterized by the existence of clans. In Gërxhani and Schram (2000), we give a detailed analysis of the role of clans in Albanian politics. Here, we apply a standard public choice method, estimated vote functions (*cf.* Paldam, 1991; Mueller, 2003), and show that (i) clans do play an important role in Albanian political economy; (ii) neglecting the existence of clans can bias the conclusions drawn from application of standard techniques.

The organization of this note is as follows. In the next section, we give a brief overview of politics in Albania and discuss the role of clans. Section 3 presents an empirical analysis of clan-related voting. Section 4 concludes.

## 2. Clans in Albanian Politics

Albania has hardly ever had a democratic political system. In about four decades of communist dictatorship it was completely isolated. The political regime was dictatorial and the economic system was completely socialized. In the early 1990s, Albania was the last of the Central and Eastern European countries to allow political pluralism, establish democratic institutions and introduce market mechanisms.

Currently, there are two major parties in Albania: the Democratic Party of Albania (DPA, in office 1992-1997) and the Socialist Party of Albania (SPA, in office since 1997). The fall of the communist regime in 1992 brought the DPA to power. Until 1997, there appeared to be reasonable economic growth. However, the numbers may be biased (Gërxhani, 2003), and the privatization process was used to increase DPA's popularity through economic and political favors (Shala, 1997; MPEP, 1997). All economic progress was demolished in 1997, when a

collapse of the 'Ponzi schemes' led to complete economic and political chaos (Bezemer, 2001; Sadiraj, 1999). In this note, we discuss the role of clans in the DPA-run years 1992-1997. In Gërxhani and Schram (2000) we show that clans were important in the non-democratic years as well. [1]

To understand what is meant by the term 'clan', first consider established democracies, where voters decide on what party to support by considering some individual specific trade-off between private and general interests. Politicians often actively represent the interests of their constituencies or of specific interest groups. One can distinguish two extremes: 'interest groups', where common economic or political interests unite a group of voters (independent of their background) and 'ethnic' or 'religious groups' (where voters are united independent of their economic interests). In Gërxhani and Schram (2000), we argue that clans constitute an intermediate position between these two extremes.

In a clan-culture, we distinguish three groups of voters:

1. *Clans.* Members of a clan are related through kinship, culture, race and/or language, as well as through political interests (Collins, 2002). Ties are much stronger than in interest groups. A crucial difference is that members of a clan are not only sensitive to favorable policies, but also to *which party* is favoring them. On the other hand, clan ties are not as strong as with ethnic voting, since the relationship is not based on ethnic bonds only but also on policies favoring the clans. [2]

2. *Partisans.* Clans are relatively small compared to the whole electorate. Partisans are closely related to a clan and profit from party policies favoring it (but are not, for example, related through kinship). *E.g.*, partisans profit from clan policies allocating funds to their region. Like clans, their voting behavior depends on both the policies and the party undertaking them. [3]

3. *Non-partisan.* These are not related to any clan. They are assumed to vote based on general economic conditions.

To a large extent, clans and partisans in Albania are geographically based. There is a northern clan, closely related to the DPA, and a southern clan related to the SPA (Vickers and Pettifer, 1997). As a consequence, we formulate two hypotheses.

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[1] There is insufficient reliable evidence to analyze the period after the collapse of the Ponzi schemes in 1997.
[2] Many groups in the real world are a hybrid form of interest groups and clans or of clans and ethnic groups. Nevertheless, the theoretical distinction is useful and provides a basis for further analysis.
[3] One important difference with clans is that when a clan controls government, they will allocate key positions to clan members and not to partisans.

*Hypothesis 1*

Policies before 1992 and after 1997 favor the clans and partisans in the South. Policies in 1992-1997 favor the North.

*Hypothesis 2*

During a DPA (SPA) government, voters in the South (North) react strongly to economic swings because they are more sensitive to these policies than non-partisans. Voters in the North (South) have a strong alliance with the governing DPA (SPA) irrespective of its policies. The central region, where clans play a less important role, is expected to take an intermediate position.

One might be tempted to conclude from hypothesis 2 that parties should support the 'other side', because that is where votes are to be gained. However, a clan culture cannot be considered independent of hypothesis 1. If clans no longer support 'their own', the culture falls apart and hypothesis 2 no longer holds.

An example of the policies referred to in hypothesis 1 is the way in which the DPA used the privatization process to give political and economic favors, as mentioned above. Case (2001) and Gërxhani and Schram (2000) provide more substantial evidence in favor of hypothesis 1. In the following section, we test hypothesis 2.

## 3. Clans and Voter Behavior

We consider the election result per region for the Albanian general elections in 1996 and 1997 and categorize the 35 electoral districts into the regions: northern (12), central (12) and southern (11).[4] Table 1 summarizes the election results and reports the unemployment rate per region.[5]

**Table 1:** Election results for DPA relative to SPA

|  | 1996 | | 1997 | |
|---|---|---|---|---|
|  | **Result*** | **Unemployment** | **Result*** | **Unemployment** |
| North | 65.2 | 11.0% | 45.3 | 15.6% |
| Central | 62.9 | 13.9% | 27.1 | 19.4% |
| South | 48.4 | 9.2% | 17.8 | 13.7% |
| **Total** | **59.1** | **11.3%** | **30.4** | **16.3%** |

* 'Result': votes for DPA as a percentage of votes for DPA and SPA.

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[4]Data from Kurbin (North) are not used, because economic data for this region are missing.

Note the tremendous decrease in the popularity of the DPA between the two elections. The difference across regions is also remarkable. Independent sample t-tests (with unequal variance) show that pair-wise differences are statistically significant at the 1% level except (northern-central) in 1996 and (central-southern) in 1997. Support for the DPA is therefore significantly lower in the South than in the North. This supports the notion of a northern clan and partisans linked to the DPA and a southern clan and partisans related to the SPA.

To test hypothesis 2, we focus on the unemployment rate as a key indicator of government policy and estimate the vote function (Paldam, 1991; Schneider and Frey, 1988; Mueller, 2003):

$$Ln(V^{it}_{DPA}/V^{it}_{SPA}) = \beta_0 + \beta_{97}D97 + \beta^j_1 Un^{it} + \varepsilon^{it}, \; i=1,..,35; \; t=96,97; \; j=1,2,3 \; ,$$

Where $V^{it}_p$ denotes the vote share of party p in district i in t=1996 or t=1997, j denotes the region (1=North, 2=Central, 3=South) that i lies in, D97 is a dummy representing the 1997 elections, $Un^{it}$ denotes the unemployment rate in district i in t and $\varepsilon^{it}$ is a white noise error term. $\beta_0$, $\beta_{97}$, and $\beta^j_1$ will be estimated with OLS.[6] Allowing the coefficients concerning the unemployment rate to vary enables a test of hypothesis 2 that the voters' reaction to unemployment differs across regions. Formally, hypothesis 2 yields a test of:

$H_0$:     $0 > \beta^1_1 = \beta^2_1 = \beta^3_1$,

$H_1$:     $0 \geq \beta^1_1 > \beta^2_1 > \beta^3_1$.

Under the null hypothesis, voters in the three regions respond (negatively) to unemployment. The response does not differ across clans or partisans. The alternative states that clan members and partisans in the South (*i.e.*, clans that oppose the governing DPA) react negatively and most strongly to unemployment during the DPA government. Non-partisans react negatively but less strongly. Finally, (DPA-supporting) clan-member/partisans in the North show the weakest reaction (possibly not letting unemployment affect support for the DPA at all).

A traditional application of vote functions does not distinguish between clans and

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[6] Ideally, we would have liked to include the inflation rate in various regions as an independent variable (cf. Paldam, 1991). Unfortunately, there are no such data available.

partisans. Therefore, we first estimate the model imposing the null that all voters respond to unemployment in the same way. The results are given in the second and third columns of table 2. They show a strong effect of the 1997 election dummy, reflecting the general loss in support in 1997. The coefficient for unemployment is negative (the DPA has less support in regions where the unemployment is higher), but statistically insignificant (at the 5%-level). The explanatory power of this model is low ($R^2$=0.469).

The explanatory power increases substantially ($R^2$=0.707) when we allow the coefficients to vary across regions (fourth and fifth column of table 2). These results show important differences across regions. In North, voters react positively to unemployment, though the coefficient is not statistically significant at conventional levels. In Central and South negative responses to the unemployment level are observed. The strongest (negative) response is found in the South. A formal test of $H_0$ versus $H_1$ shows that the equalities in $H_0$ are rejected in favor of the inequalities of $H_1$ (p<0.01).

**Table 2:** Estimated vote functions

| Variable | No Clans | | Clans | |
|---|---|---|---|---|
| | Coefficient | Absolute t-value | Coefficient | Absolute t-value |
| Constant | 0.641 | 3.532* | 0.653 | 4.553* |
| $\beta_{97}$ | -1.259 | 6.722* | -1.255 | 8.690* |
| $\beta_1^{north}$ | } −2.205 | } 1.898 | 1.802 | 1.497 |
| $\beta_1^{central}$ | | | -2.845 | 3.111* |
| $\beta_1^{south}$ | | | -6.569 | 4.831* |
| $R^2$ | 0.469 | | 0.707 | |

*Note*: * indicates statistical significance at the 1% level.

The rejection of $H_0$ means that our results support hypothesis 2, that the existence of clans cause voters to respond asymmetrically to DPA policies. In particular, the notion of two clans, based in the North and South, finds support. Note that if we had not taken account of clans, we would have concluded that the effect of unemployment on the vote is limited. In fact however, this effect is very strong for some groups.

## 4. Conclusions

The specific history of any nation -but especially of a nation going through transition from communism to democracy- is very important to understand its politico-economic development. One important element throughout Albania's history in the second half of the 20th century is the existence of political clans. We have shown that this affects electoral

behavior in response to (clan based) policies by government. Moreover, we have shown that an understanding of the effect that economic policy has on political support in Albania requires that one takes these clans into account. Finally, note that clan-based politics lead to an exaggeration of the usual redistributive tendencies of regional-based politics yielding more inefficient outcomes than in countries where clans are not so pronounced.

An interesting question, of course, is *why* clans play such an important role in Albania. This may be related to the fact that government institutions are underdeveloped. Myerson (1993) argues that rational expectations imply that political candidates must make promises that they can actually fulfill if elected. The state of development of government institutions in fragile democracies like Albania may give rise to serious agency problems, however. This makes promises of political candidates more difficult to enforce, which, in turn, may lead voters to rely more heavily on other social structures. In other words, as long as formal governmental institutions do not function properly, other (informal) institutions are formed that fill the vacuum. This could explain why the role of clans is much stronger in countries in transition than in established democracies.

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