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## ARMENIAN POLITICS

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## ■ CHRONICLE

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## Armenia: Stagnation at Its Utmost

By Alexander Iskandaryan, Yerevan

### Abstract:

The lack of developed political parties is the main problem plaguing Armenia's domestic politics. Given widespread political apathy and low trust in political institutions, the ruling party is able to keep its balance and hold on to power despite its low legitimacy.

### A Changing Political Landscape

The last few years have seen changes in the political landscape of Armenia. The changes did not happen overnight and there was nothing revolutionary about them; their result has been a new design of Armenia's political administration.

### Elections Without Choice

Over approximately eighteen months, from early 2012 to mid-2013, the long-ruling Republican Party of Armenia (RPA) succeeded in taking over almost all of the country's political arenas. Republicans won the vast majority of elections held during that period, including the parliamentary and presidential polls, and local elections across the country and in the capital city Yerevan. By the end of 2013, this unprecedented victorious march concluded with members of the RPA in all key positions: president, prime minister, speaker of the parliament, mayor of the capital city, most MPs in the National Assembly and members of the Yerevan City Council. On the local level, Republicans also took over in tiny rural communities with less than a thousand residents, as well as in small and medium sized towns. The takeover on the community level was a two-way street: in some communities, Republicans won the race against independents or members of other parties; in other communities, previously non-partisan mayors joined the Republican Party.

The result of the takeover has been the final establishment of a classical *one-and-a-half party system* in Armenia. The system is common in hybrid democracies; for example, it was in place in Mexico in the 1920s to the 1990s during the rule of the Institutional Revolutionary Party, and in Japan in the 1950s to 1990s with the Liberal Democratic Party at the wheel.

Typically for this type of system, the RPA is not so much the ruling party as the "party of power." In practical terms, it functions as a trade union of public officials and affiliated businesspeople. It also provides career opportunities for ambitious young people ready to climb the social ladder according to the rules of the game. Finally, it ensures the smooth operation of electoral mechanisms. It is quite indifferent to ideology, despite being rooted in the Soviet dissident movement and boasting a hodgepodge of a right-wing political platform.

The RPA—and some of its competitors—use *gifts*, a euphemism for bribes, to gather votes, according to observers. This practice does not necessarily involve money changing hands, but rather, runs a gamut of non-ideological vote attraction methods, ranging from the construction of village roads and presenting communities with agricultural machines, through access to benefits and resources of various kinds, to the handing out of food, seeds, and, money. Needless to say, in this kind of game, incumbent authorities possess crucial logistical as well as financial advantages.

### Opposition Weakness

The reason the system is called one-and-a-half-party is that the ruling party, *first*, dominates during decades (over seventy years in Mexico, over forty in Japan), and *second*, is much larger and more powerful than all of its opponents (all put together, they stand for the "half party"). For such a system to be in place, it is insufficient to have a dominating ruling power (something many post-Communist countries have). It is also essential that all the other parties should become inefficient and marginalized.

It took Armenia's political system over two decades to mutate into its present state; most of this time, the Republican Party has been in charge (ruling on their own or in coalition since 1999). The current paradigm stems from trends within the RPA, clearly manifest since the early 2000s, but not less from ones in the political party system as a whole.

In the years following independence, Armenian opposition has adhered to a line of radical political thought, based on which it evolved a "winner takes all" behavior strategy that boils down to trying to come to power by means of elections or a revolution. After two decades of applying this strategy, political parties have failed to become sustainable grassroots institutions and remained disposable electoral machines that rely on radicalized discourses to win the critical mass of voter support needed for a change of power. After a few botched attempts to take over, the machines are doomed to fall apart because they lack the ideological and logistical base needed for sustainability. The weakness of Armenia's opposition parties isn't just bad luck;

they are built that way. Unable to destroy the political system, they are also unable to become part of it. In order to operate permanently, not just during election campaigns, a party needs human resources, ties to the media, an expert pool and financial base. Existing opposition groups have none of these things, and lack the motivation to engage in day-to-day political activity, because the radicalized approach promises them a simpler, if illusory, way to win.

The parties' political programs are chiefly negative; they slam the authorities but do not offer meaningful solutions to existing problems. The vision is that getting rid of the bad guys in the government will automatically reduce poverty, social inequality and corruption. Opposition leaders have been in politics for a quarter of a century; many of them were in power at some point, so that voters have no reason to trust them any more than they do the incumbents. Overall, *wide social discontent in Armenia is permanent, but support for a particular actor or party is short-lived*. This situation makes it easy for the authorities to lure voters away using non-ideological methods.

Another typical, though counterintuitive, feature of the one-and-a-half party system is the significant presence of opposition parties in the legislature. Indeed, the 2012 Armenian parliament includes more opposition parties than any before it. However, as befits this system, opposition MPs have little influence over decision-making and merely legitimize the rule of the RPA, which has a majority in the parliament. Politics is made elsewhere.

The reason that this system is sustainable is not that the authorities are legitimate, but that no one challenges them. Up to 2012, most of the opposition was non-parliamentary, and it radicalized its rhetoric to the maximum extent, denying the system's right to exist. This made sense, because the system had denied them the right to be part of it. The same rhetoric is now used by actors and groups that have taken part in elections and won seats in the parliament. When MPs insist that election results and the whole power pyramid have no legitimacy, this does not sound convincing. The demand for radical rhetoric is growing as economic recession persists, but the supply is getting shorter.

Armenia's political party system will keep deteriorating. Parties will weaken and fall apart. Driven out of the political domain, the public's political demands, expectations and perceptions will keep moving over to civil society. In Armenia and some other transition states, this segment does not just include the civil society in its classical sense (groups engaged in the protection of human rights, public service provision, advocacy, etc.), but also the embryos of political groups that engage in modern forms of political protest, more networked

and radical than traditional ones. Before they evolve into political parties, these groups will need to undergo many changes, the hardest of which is to become aware of their political rather than civil nature. Accordingly, the RPA will remain comfortably in power for years, despite wide social discontent and the low legitimacy of all governance institutions.

### Politics Outside Politics

The civil society groups that function as replacements for the ineffectual political parties mostly engage in street protests that they themselves (and the society) perceive as civil rather than political activism. The protests can be triggered by a variety of causes, such as environmental concerns or the demolition of old buildings; in fact, they possess all the characteristics of political protests. The advocates and participants of these protests are chiefly recruited from the same social group, mostly young and educated residents of the center of the capital city, altogether a few thousand people. The theme of a protest may have no direct relevance to this social group. The group has no hierarchy, or perhaps many interlinked hierarchies. It is not structured, but has a nucleus of the most active members. A novel phenomenon in Armenia, its emergence appears to be directly connected to the deterioration of traditional opposition groups.

In the last few months, the biggest activity organized by this cohort has been Electric Yerevan: a protest against plans to raise the rates for electricity. The street protest ran for weeks during summer 2015, involved barricading one of the city's busiest streets, and finally caused the government to announce the temporary suspension of plans to raise the rates. As the protest unfolded, the atmosphere around the barricades in Baghramyan Avenue escalated, there were clashes with police, and the site became a symbol of confrontation with the authorities. The reason for the protest was local, but the trend is significant: benchmark political protests are happening without the involvement of mainstream political opposition.

A new phenomenon in the public discourse is the protesters' sharp anti-oligarch narrative. Directed against unfairly made fortunes, the merger of business and politics, and the corrupt nature of large business in general, this narrative is close to that of the New Left in Europe and Latin America. It is unlikely that its adepts are aware of the parallel, since the narrative has a clear domestic origin. It does, however, amount to the emergence of a left-wing discourse, which is unprecedented in Armenia since independence from the USSR.

The protests remain weak and confined to one social group. It is likely that the authorities will keep fulfill-

ing the protesters' demands as long as they do not concern issues of crucial importance. However, since the protests are political by nature and have a mobilization resource that does not depend on specific issues, they are likely to spring up again and again in connection with various themes. This may open up prospects for the emergence of new forms of political activism. So far, the movement lacks a hierarchy, has little expertise and no structure. An instinctive shift towards socially-oriented and even semi-Communist narratives is insufficient for the protests to spill over to other social groups.

### Conclusion

Political apathy is the population's most common reaction to the low legitimacy of a political system, which

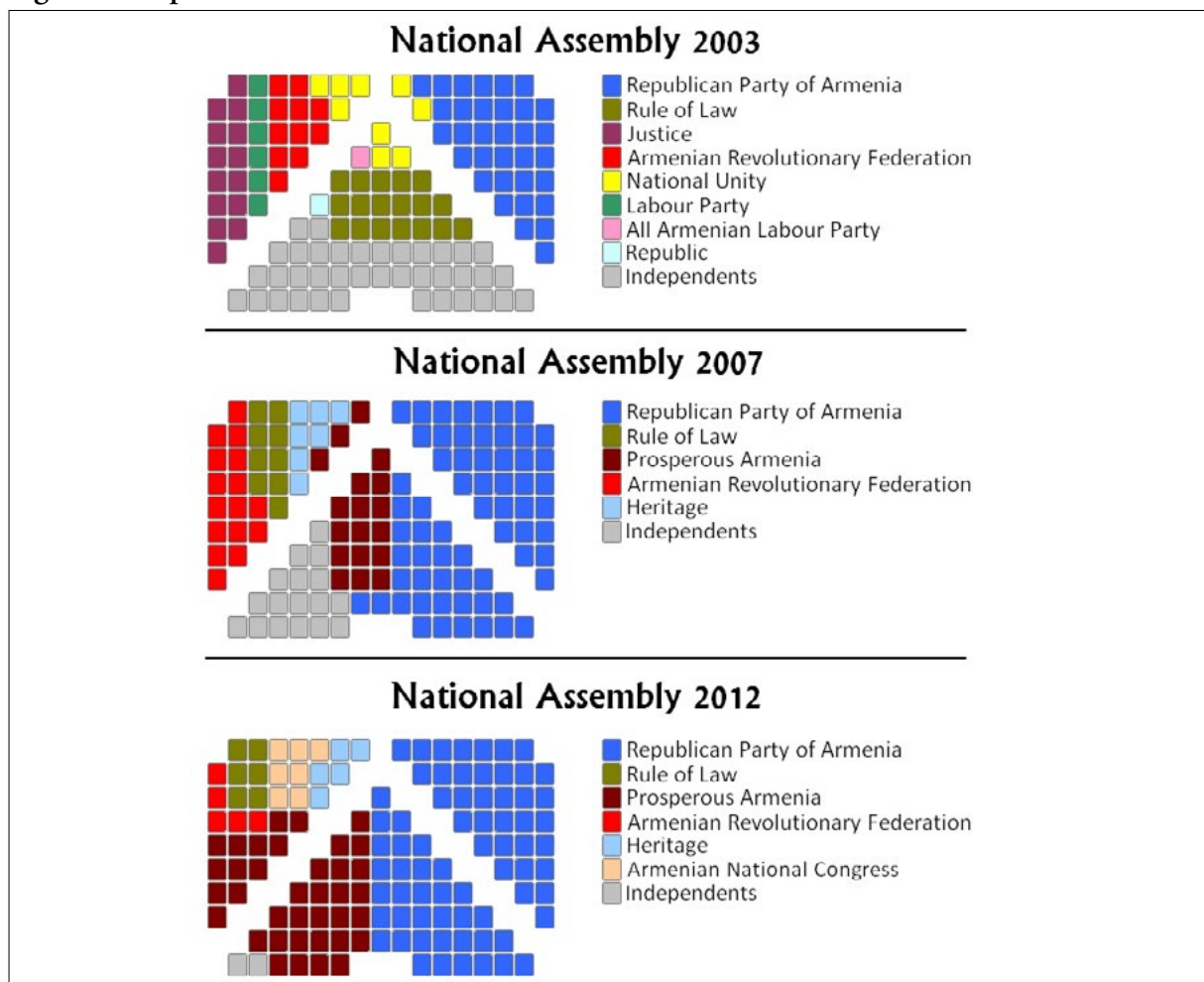
makes it easy for the authorities to win elections. Deterioration of the opposition field kills any remaining hopes for change and leads to stagnation, although social discontent remains high and even grows. Many countries' experience shows that this kind of precarious stability can persist for decades until someone challenges it.

The weakness of Armenia's political parties prevents them from challenging the party in power, which, in its turn, is incapable of performing the functions expected of a political party. Demand for opposition politics in Armenia is huge, but supply is dwindling. By now, it has dwindled sufficiently to represent no challenge to the regime.

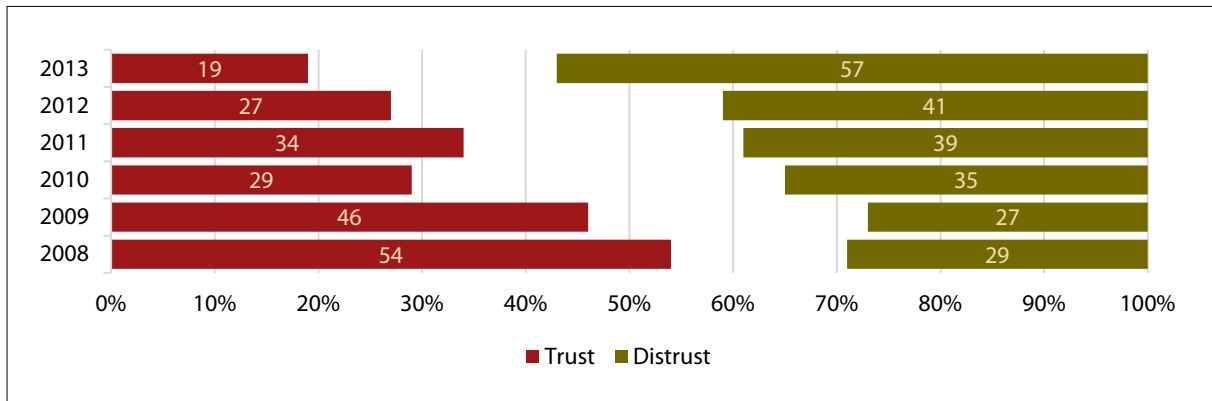
#### *About the Author*

Alexander Iskandaryan is a political scientist. Since 2005, he has been the director of the Yerevan-based Caucasus Institute.

**Figure 1: Representation of Political Parties in Armenia's National Parliament**

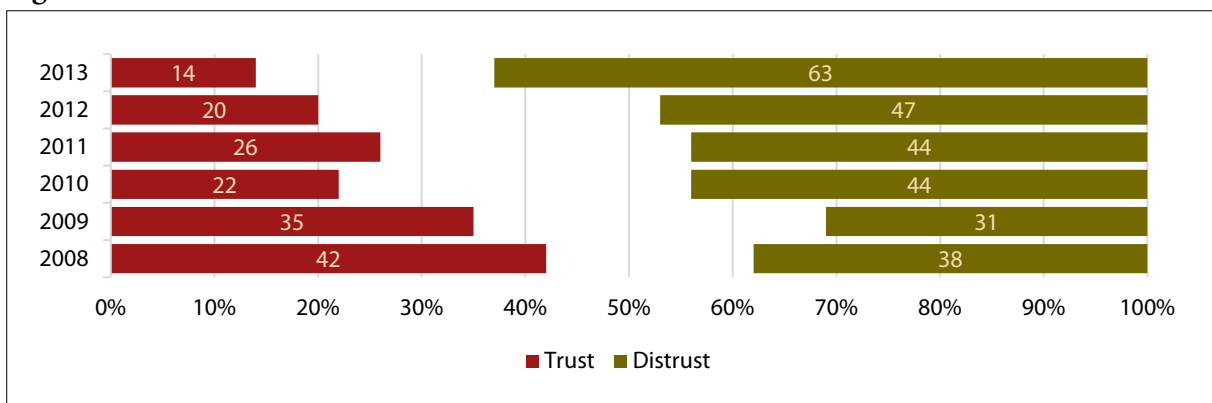


Source: *Arant Mikaelian, Caucasus Institute, Social Sciences Department*

**Figure 2: Public Trust Towards the President**

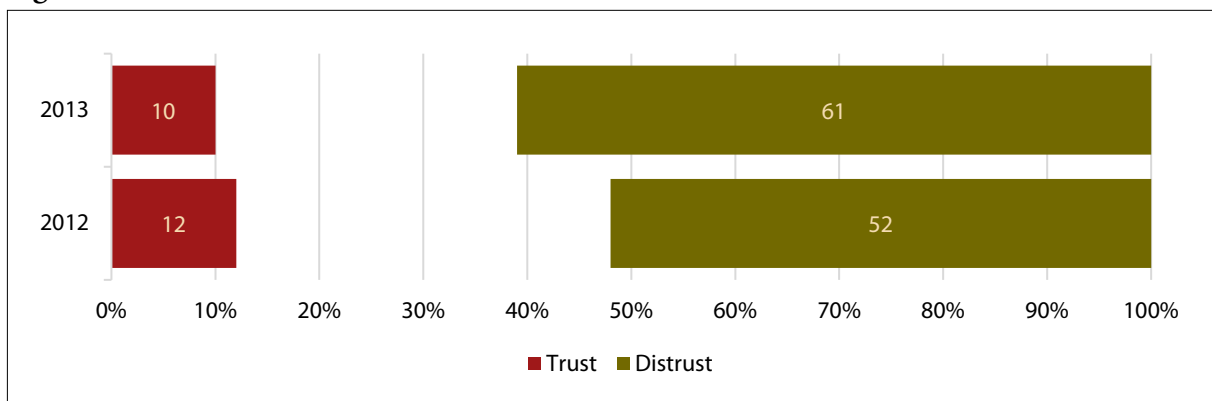
Note: The difference to 100 percent consists of do not know and no answers.

Source: CRRC Caucasus Barometer 2008–2013

**Figure 3: Public Trust Towards the Government**

Note: The difference to 100 percent consists of do not know and no answers.

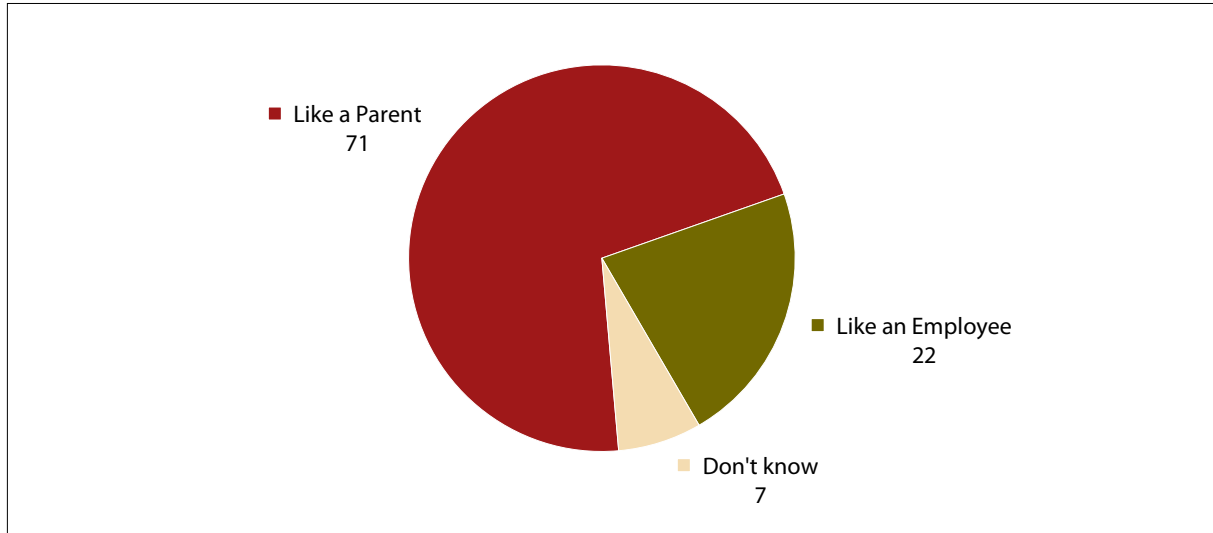
Source: CRRC Caucasus Barometer 2008–2013

**Figure 4: Public Trust Towards Political Parties**

Note: The difference to 100 percent consists of do not know and no answers.

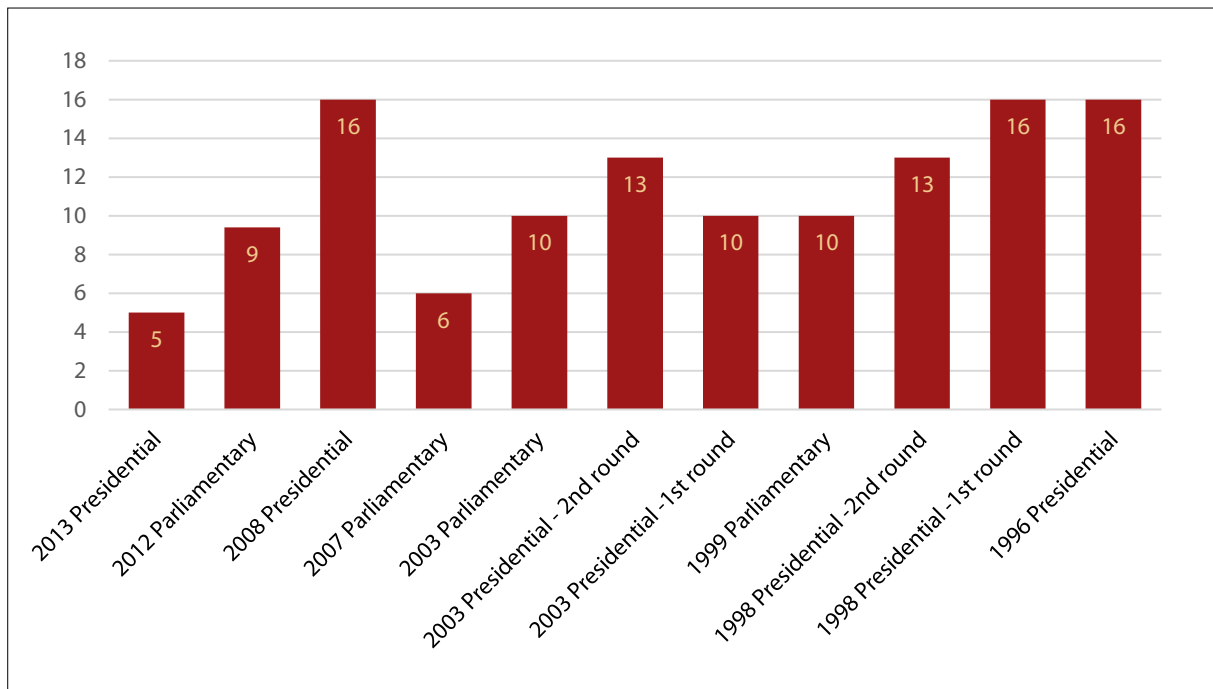
Source: CRRC Caucasus Barometer 2008–2013

Figure 5: Paternalism in Armenia. The State Should Be ...



Source: CRRC Caucasus Barometer 2013

Figure 6: Share of Polling Stations Where the Election Process Was Accessed Negatively by OSCE/ODIHR International Observers



Source: <<http://www.osce.org/odihr/elections/armenia>>

## Electroprotests in Armenia as a Manifestation of the State's Crisis

By Maciej Falkowski, Warsaw

### Abstract:

Protests against the increase in electricity prices, which broke out in Armenia in mid-June, were a manifestation of the increasing social, economic and political crisis that has been haunting Armenia since the collapse of the Soviet Union. The protests were anti-systemic and—regardless of the declarations of the protesters themselves—contained anti-Russian elements. They triggered serious anxiety in Moscow, which in an attempt to appease the tension made several unexpected gestures. The protests are a new and important phenomenon in Armenian politics, but they are unlikely to generate processes that could affect the direction of developments in Armenia, as the country's internal situation largely depends on the geopolitical situation in the region, which is unfavourable for Armenia.

### The “Electromaidan”

The protests began on 17 June, after the Commission for the Regulation of Social Services at the request of the Armenian Electrical Network (owned by the Russian company Inter RAO) announced a 16 percent increase in electricity prices effective as of August 2015. The initial reactions were far from spontaneous. The first protests near the Commission's premises were organized by the “Dashnaksutyun” nationalist party's youth group and the “Nikol Ablagian” student organization. On 18 June, a group called “Stop the Looting” was formed and organized further protests. However, the demonstrations soon became spontaneous and unorganized. The “Heritage” opposition party, the “Pre-parliament” organization and some activists of the Armenian National Congress attempted to join the protests, but the unfavourable reaction of the demonstrators prevented the protests from turning into a political event. The protesters' only demand was that the decision to increase prices be withdrawn. Ultimately, the “Stop the Looting” committee could no longer control the expanding crowd of Yerevanians. The protests also spread to other Armenian towns, especially Gyumri.

The demonstrations initially took place in the Liberty Square, the traditional protest site in the Armenian capital. Ignored by the authorities, protesters blocked Baghramyan Avenue, which connects the immediate center with the Presidential Palace and the Parliament. The next morning security forces used water cannons to disperse demonstrators, arresting around 200 people (the action was not heavy-handed and nobody was seriously injured). In the evening demonstrators blocked the street again by constructing a makeshift barricade made of rubbish containers. A two-week blockade started which, regardless of the intentions of the protesters, who wanted to avoid any parallels with the events in Ukraine, was dubbed the “Electromaidan”. After almost two weeks, the protests started to dwindle, attracting fewer and fewer participants. They ended on 6 July, after the police destroyed

the barricade and removed the remaining handful of demonstrators.

The protesters did not manage to achieve their goal, but the spontaneous and apolitical demonstrations, which in their peak gathered around 10,000 people, have revealed not only people's frustration due to the deteriorating economic situation, but also their energy, especially that of the young generation. Every evening Baghramyan Avenue saw a peculiar street festival. People danced, sang, and talked. During the day, the area surrounding the barricade turned into a kind of agora. Young people, adults and the elderly, families with children came to discuss and listen peacefully, with no aggression. The demonstrations had no leaders, no speeches were made and journalists who came to Baghramyan Avenue had to interview the people who gathered there. Everyone could express their opinion. Although the protests were completely non-institutionalized and poorly organized, they let out the surprising creativity of the demonstrators, who drew up banners with joking slogans and anti-systemic contents. An important element of the demonstrations was their virtual side: numerous profiles were created in social networks, the internet was full of photos mocking the authorities, the discussions which started in the streets continued on Facebook. The two-week protests in Yerevan will certainly pass into the history of Armenia as a spontaneous outburst of democracy and civil society.

The media, especially foreign ones, dubbed the Yerevan events the “Armenian Maidan” and “Electromaidan” hashtags started appearing on Twitter, however the demonstrators avoided any parallels with, and openly distanced themselves from, the developments in Ukraine. This caution resulted not only from their fear of being accused by the government and Russia of acting at “western instigation” (which happened anyway), but also from the true nature of the protests, which had nothing to do with the European option. In this respect, a notable incident took place on 2 July, when the demonstrators



expelled from the protest site a famous oppositionist Paruyr Hayrikyan, who along with two of his supporters brought flags of the European Union.<sup>1</sup>

### The Government Stance

During the first several days, the protests were ignored by the government, a result of the adopted strategy rather than disregard for the risk of an escalation in social tensions. The first blockade of Baghramyan Avenue ended in violent dispersal of the demonstrators and mass detentions. However, from the very beginning the authorities avoided violence, mindful of the internal and international consequences of the events which took place on 1 March 2008 (when protests were dispersed following the presidential election, as a result of which 10 people died and the international image of Armenia was seriously compromised), but also because of the Ukrainian Maidan (where violence applied by Viktor Yanukovich led to the escalation of protests, as a result of which the government was overthrown). The following day, the arrested protesters were released and the next blockade was not dispersed by force.

The lack of political leadership and poor organization of the protests, as well as the uncompromising attitude of the demonstrators, who brought forward just one demand, made it difficult for the authorities to handle the situation. From the present perspective, it is clear that President Serzh Sargsyan adopted an efficient tactic towards the demonstrators, although he risked that the government would compromise its credibility. The strategy included three components. The demonstrators were to be treated cautiously, even respectfully (Interior Minister Vladimir Gasparyan, who visited the avenue daily and held discussions with the protesters, played an important role here). At the same time, backstage attempts were made to divide them internally. In the political dimension, the president took steps aimed at showing the demonstrators that he was ready for a certain compromise in the short run, while upholding the decision to increase electricity prices in a long-term perspective. Sargsyan proposed an audit to be conducted of the Armenian Electrical Network by a specialized foreign company in order to check whether the Armenian monopolist, which controlled electricity distribution throughout the entire country, was operating efficiently and whether the price increase was justified from an economic point of view. Pending notification of the audit results, the government would bear the cost of the price increase. The demonstrators initially rejected the president's proposal, but on 29 July part of them (including members of the "Stop the Looting" committee) yielded

to the government's persuasion. They initially moved to the Liberty Square and finally dispersed. The blockade on Baghramyan Avenue continued, but grew smaller every day. On 6 August, the police dismantled the blockade and forced the remaining handful of demonstrators to leave or arrested them.

The authorities' tactics to wait out the demonstrations proved efficient. However, one cannot rule out that if the audit results favor the government (which is highly probable, given the fact that the auditing company will be chosen in cooperation with Inter RAO) and the decision to increase prices is sustained, the protests may be resumed.

### Russia's Reactions

The Russian factor played an important role in the protests which, regardless of the declarations of the demonstrators themselves, contained anti-Russian elements. Although they were primarily aimed against the government, the demonstrators perceived the Russians, who own the Armenian Electrical Network and control key branches of the Armenian economy, as responsible for the situation.<sup>2</sup> Anti-Russian elements were strengthened in reaction to the biased way the Yerevan events were presented in the Russian media, which interpreted them as a Western plot aimed against Russia. A similar stance was adopted by some Russian politicians.<sup>3</sup>

The anti-Russian elements in the Armenian protests as well as the fact that spontaneous grass-roots protests resembling the beginnings of the Maidan occurred in a country that belonged to the Eurasian Economic Union and remained in the Russian sphere of influence triggered serious anxiety in Russia. This was confirmed by Moscow's reaction, which was disproportionate to the scale of the threat to Russian interests, and several unexpected gestures towards Armenia. Russia not only agreed to the audit of the Armenian Electrical Network, but also provided Armenia with a preferential loan amounting to USD 200 million for the purchase of arms and promised to reduce the price on Russian gas (from USD 189 to 165 for 1000m<sup>3</sup>). Contrary to the previous policy, the investigation of the case of the Russian soldier Valeriy Permyakov, which horrified the Armenian public

1 <<http://news.am/eng/news/275123.html>>

2 The arrogance of Armenian Electrical Networks Director Yevgeniy Bibin, who refused to participate in the meeting of the Commission for the Regulation of Social Services and announced that his company did not have to explain the price rises, contributed to the escalation of tension.

3 E.g. head of the Russian Duma International Committee Konstantin Kosachev or an influential pro-Kremlin political scientist Sergei Markov. See, for example, <<http://www.businessinsider.com/russia-is-seeing-conspiracies-in-armenia-where-none-exist-2015-7>>



in January of 2015 (Permyakov, who served in the Russian military base in Gyumri, murdered an Armenian family of six), was transferred to the Armenian authorities. There is little indication that the steps taken by Russia in fact contributed to the solution of the crisis, but they prove that Moscow is anxious and uncertain about its influence in the post-Soviet area.

### **Protests as a Manifestation of Socio-Political Crisis**

The nature of the protests was only seemingly apolitical. Although the protesters did not voice political slogans, the demonstrations cannot be viewed in a narrow perspective, i.e. only as a protest against the increase in electricity prices, nor should they be considered in separation from Armenian politics and the geopolitical situation in the region.

In the background of the protests is the socio-economic crisis which has been haunting Armenia since the collapse of the USSR and which has deepened significantly in recent months, resulting in the deterioration of living conditions felt by the majority of the society (increased unemployment and inflation rates, decrease in money transfers from economic migrants working in Russia, weakening of the Armenian currency in relation to the U.S. dollar). The demonstrations are not only a protest against price increases, but also a manifestation of people's frustration growing throughout the years, which is already so great that economic migration—the traditional way for Armenians to cope with economic hardship—no longer provides a security outlet.

The social and economic crisis in Armenia is accompanied by a political crisis. The non-institutionalized nature of the protests and the demonstrators' distanced attitude towards opposition parties was a vote of no confidence for both the government and the opposition. Their anti-systemic nature has demonstrated a crisis of the entire political system. Such an attitude among society toward the political elite stems from the latter being unable to solve society's problems and to prevent the further collapse of the state. A few years ago, the public expressed unfavorable opinions mostly about the government, which has ruled Armenia since 1998 (the so-called Karabakh clan). Currently, people are equally critical of the opposition, which has not been able to come up with any alternative to the oligarch-dominated Republican Party of Armenia (e.g. the Armenian National Congress or the Heritage party), which either started to cooperate with the government (e.g. the Dashnaks) or became part of the establishment and benefits from the system (as the Prosperous Armenia of Gagik Tsarukyan or the Rule of Law of Artur Baghdasaryan).

### **Geopolitical Cul-de-sac**

The geopolitical nature of the demonstrations points to something more than just a systemic crisis of the Armenian state. The protests are an example of the collective mechanism encompassing both the elite and the society, which could be described as an attempt to deny reality. People protesting against the increase in electricity prices, like the majority of the society, are not aware of how deep and dramatic the situation of Armenia in fact is and do not realize that even if their demands were met, the situation would not improve anyway. Most Armenians blame the difficult economic situation on "bad and greedy politicians" who exploit the nation in the name of their particular interests. The people of Armenia (including the majority of intellectual elites) do not link the increasingly poor living conditions to the dramatic geopolitical situation of the country (international isolation, closed borders, dependence on Russia, loss of sovereignty), which is the real source of most of their problems. They do not understand that the answer to the question about the origins of the oligarchic political and economic system should be sought not so much in the internal situation (e.g. the lack of reforms or not fully democratic political system), but in the geopolitical cul-de-sac, in which Armenia has remained for the last 25 years.

The irrational mechanism of collective reality denial described above stems from the fact that if it were to be acknowledged, one of two Armenian national sanctities would be compromised, i.e. the Karabakh cause which along with the problem of the genocide constitutes a pillar of the modern Armenian national identity. Meanwhile, it is the Karabakh problem that lies behind the dramatic geopolitical situation which Armenia currently faces. If it hadn't been for the Nagorno-Karabakh conflict, there would be no blockade by Azerbaijan and the border with Turkey would not be closed, thus there would be no regional isolation of Armenia which has become one of the pillars of the oligarchic political system. If it hadn't been for the Karabakh conflict, at least some transport routes would be built on the territory of Armenia (the shortest route from Azerbaijan to Turkey leads through Armenia, not through Georgia), the country would not be so dependent on Russia and apart from the Russian option, could also make the European choice. There would also be bigger chances to establish diplomatic relations with Turkey, as Ankara repeatedly declared that the only obstacle for the establishment of relations between the two countries was the unresolved Karabakh conflict. If it hadn't been for the Karabakh war, neither Robert Kocharyan, nor Serzh Sargsyan would become presidents of Armenia and the big and lively Armenian community in Baku would certainly

be the beneficiary of the crude oil boom. Armenians have lost all the above chances in exchange for the former Nagorno-Karabakh Autonomous Oblast with some adjacent territories.

The Armenian public is not ready to acknowledge the above facts, because that would undermine the only acceptable narrative on Karabakh (that the conflict had to break out and that the fault for its outbreak lies entirely on Azerbaijan<sup>4</sup>), and question the significance of the victims and sacrifice that Armenians have endured since 1988 in the name of separating Karabakh from Azerbaijan. The only politician who over 15 years ago openly spoke about the necessity of a compromise solution of the Karabakh conflict so that Armenia

could develop was former President Levon Ter-Petrosyan. Because of this, he had to resign.

Viewed from the above perspective, recent protests in Yerevan although a new and interesting phenomenon in the political life of Armenia, do not *de facto* mean much and cannot generate processes which could seriously influence the direction of developments in that country. The key to changes in Armenia does not lie within the country, but in the geopolitical situation of the region. Furthermore, Armenia has very little influence on these changes, as it is a hostage of the Nagorno-Karabakh conflict and finds itself in a geopolitical trap, remaining an object rather than a subject of international relations.

#### *About the Author*

Maciej Falkowski is a Senior Fellow at the Centre for Eastern Studies in Warsaw, Poland.

4 There are many versions concerning possible scenarios explaining the outbreak of the Nagorno-Karabakh conflict. Many participants of those events, from both the Armenian and the Azerbaijani side, claim that the conflict could have been triggered by opponents of perestroika within the Soviet elite (mainly in the secret service) in order to spark the outbreak of ethnic conflicts in the periphery of the Soviet empire and force Gorbachev to back away from his reform policy.

## Some Observations on the Economic Implications of Constitutional Reform in Armenia

By Zareh Asatryan, Mannheim and Freiburg

### **Abstract:**

Armenia is preparing for a major reform of its constitution. The draft of the new constitution proposes a switch to a parliamentary system from the current (semi-) presidential system and to a proportional electoral rule from the existing (semi-) majoritarian system, among other changes. In this short article, I present some stylized facts and summarize the existing knowledge about the economic effects of constitutions. This body of evidence suggests that a switch to a parliamentary system with proportional representation may create political institutions that favor a larger public sector in Armenia with a particular pro-spending bias in social insurance programs. On the political side, descriptive evidence based on conventional democracy scores suggests that parliamentary countries, on average, have more developed democratic institutions. However, a closer look at countries that switched to parliamentary systems in the 1990s and 2000s reveals that governments opt for a constitutional change primarily to utilize more not less political power.

### **Introduction**

On the 4<sup>th</sup> of September, 2013—six months into his last term in office—the outgoing president of Armenia signed a decree forming a specialized commission on constitutional reforms. In March 2014 the commission published its concept-paper for the constitutional

reform, motivating the proposal by “the necessity for implementing the principle of the rule of law, improving the constitutional mechanisms for guaranteeing fundamental human rights and freedoms, ensuring the complete balancing of powers, and increasing the efficiency of public administration.” In July 2015 the proposed

new constitution was made available to the public and a month later the president sent the draft proposal to the parliament to kick-off the formal process before seeking approval by national referendum.

The reform proposes changes at a scale that the country has not seen in its governance structures. Among other changes, the proposal suggests a switch to a parliamentary system from the current (semi-) presidential system, where the president will be elected indirectly for a maximum of one term of seven years (instead of the current two five-year terms) by the electoral college (the president is elected in a national vote now) consisting of members of parliament and elected representatives of local authorities. According to the new constitution, the powers of the president will be largely limited in favor of the legislature, and the executive branch will be directly subordinate to the parliamentary majority. The change also proposes a shift to a proportional electoral rule when electing the legislature instead of the current (semi-) majoritarian rule where some members of the parliament are elected directly from districts without party lists. These are the two broad aspects of the constitutional change in Armenia on which I will focus my attention.

The scale of the change raises several natural questions both on the motivation to reform and the possible implications of the reform. On the former, proponents of the reform argue that a parliamentary regime will provide more flexible institutions of governance, for example, by means of stronger power-sharing mechanisms, and result in better democratic institutions. Opponents, on the other hand, argue that the outgoing president, tied by a two-term limit, aims at remaining in power by controlling a strong parliament led by his party. What is clear is that the reform comes exclusively as a top-down initiative; therefore, it is important to understand why a self-interested, some may say rent-seeking, government opts for a change that will reduce its political monopoly in favor of empowering more political groups. By comparing democratic developments before and after regime changes in the 1990s and 2000s across the world, one aim of the article is to shed more light on this controversy.

Perhaps the more important contribution, however, is to study the possible implications of the reform and particularly its economic implications. The public debate, in my view, has been somewhat trapped in discussing the motivation to reform and has not paid enough attention to the potential economic consequences of the reform. This is especially important because the early attempts of opposition parties that were trying to form a coalition against the reform were effectively crushed by the governing elite. At this

stage, while consolidation opportunities remain, it does not seem very likely that the reform will not pass the referendum.

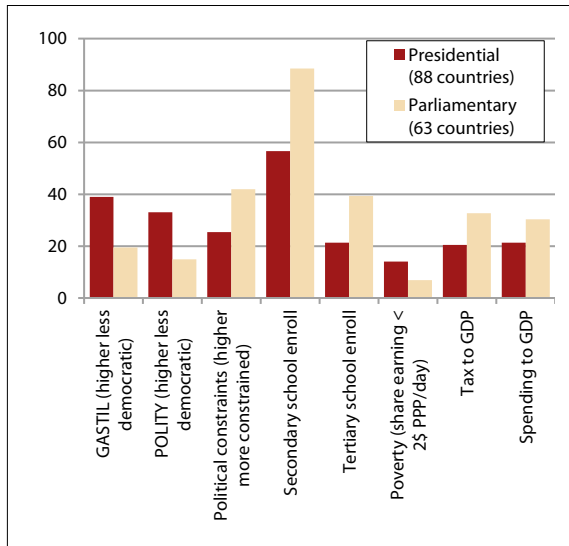
Following the literature on economic effects of constitutions (e.g., Torsten Persson and Guido Tabellini, 2003, *The Economic Effects of Constitutions*, Cambridge, MA: MIT Press) I ask whether the (change of) constitution matters for economic outcomes. Why may it matter? Because, at least in theory, constitutional electoral rules shape the electoral incentives of politicians in representing voters' preferences, and the constitutional division of powers between politicians shapes their decisions when approving and executing legislation. The budget being the politicians' main tool of economic policy, I particularly focus on fiscal outcomes and ask whether there are systematic differences in fiscal policy outcomes between presidential vs parliamentary and majoritarian vs proportional systems.

If it is true that presidential systems have more clear separation of powers than parliamentary systems, then stronger checks and balances between executive and legislative arms of the government in presidential systems may more effectively constrain politicians and result in smaller governments. If the majoritarian vs proportional debate really connotes a tradeoff between accountability and representation, then one might expect more accountable politicians to have fewer opportunities to be involved in rent-seeking behavior in majoritarian systems, while broader spending programs that benefit the wider population may result in proportional systems. Drawing on international evidence the aim of the next two sections is to study whether these theoretical predictions prevail in practice, and whether they may be informative in making conclusions for the case of Armenia. The final section discusses the motivation of a non-benevolent government to change a constitution.

### **Are There Systematic Differences between Presidential and Parliamentary Systems?**

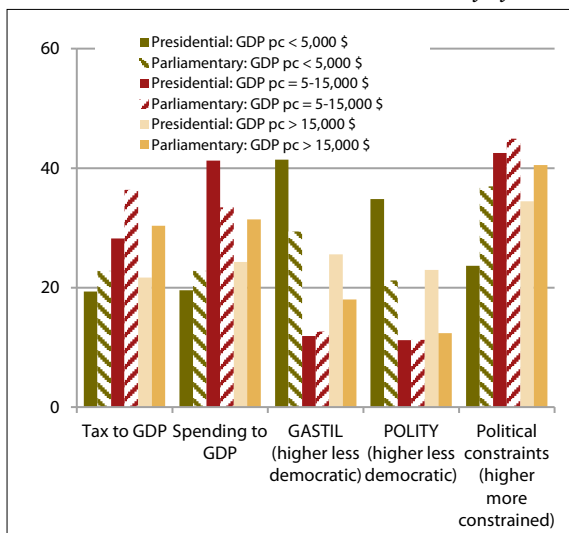
In Figure 1 I plot (unweighted) averages of several political, demographic and economic indicators separately for 88 presidential and 63 parliamentary countries. It seems that parliamentary countries are, on average, about twice as democratic, have more educated and less poor populations, and have around 50 percent larger governments measured by the share of spending and tax revenue in GDP. Simple averages, of course, hide many factors that may drive these correlations. One notable difference is the level of income. Interestingly, parliamentary countries are much wealthier with an average of 19,000 USD of per capita GDP in 2012 against only 3,000 USD for presidential countries.

Figure 1: Averages of Democratic and Economic Indicators for Presidential vs Parliamentary Systems



Notes: Unbalanced panel data of around 150 countries from 1986 to 2012. The two democracy scores, Gastil and Polity, are normalized and come from the respective databases. Political constraints index, again normalized, is from the Polcon database (see: Henisz, W. J. 2006. Polcon 2005 Codebook). Constitutions are coded according to WB's DPI. All other measures (except otherwise noted) are from the WB's WDI.

Figure 2: Does the Level of Income Explain the Differences in Presidential vs Parliamentary Systems?

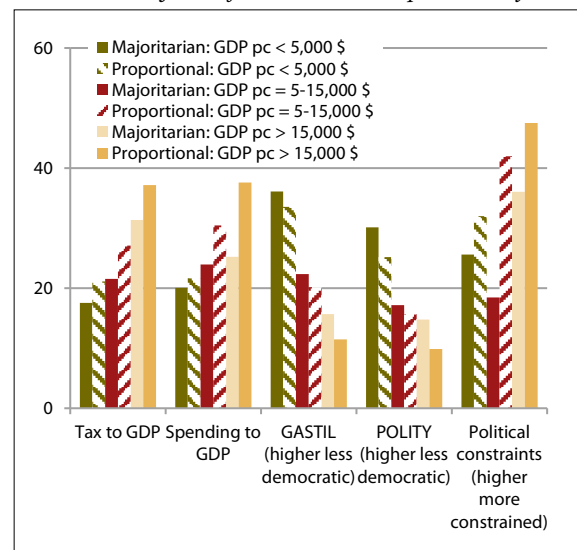


Therefore, it is important to test whether these strikingly large differences between the two systems are driven by some other factor such as the levels of income. Figure 2 builds on the previous figure by additionally distinguishing between groups of countries (and years) according to GDP per capita levels of less than 5,000, between

5,000 and 15,000, and over 15,000 USD. In each of the three income bins I observe the same relation as before; that is parliamentary countries have higher taxing and spending ratios, more developed institutions of democracy (with the exception of the middle-income group) and more constrained politics. At least on the part of fiscal measures, I refer to Persson and Tabellini (2003) and the related work both by economists and political scientists, who show that these differences persist when conditioning the correlations on many observable country characteristics.

As a next step I replicate the previous figure for majoritarian and proportional systems. As before, in Figure 3 I observe that correlations are consistent with the theoretical arguments: Countries with proportional electoral rules, on average, collect more taxes and spend more, have more developed democratic institutions and more constrained politicians. These differences persist over income groups.

Figure 3: Averages of Democratic and Economic Indicators for Majoritarian and Proportional Systems

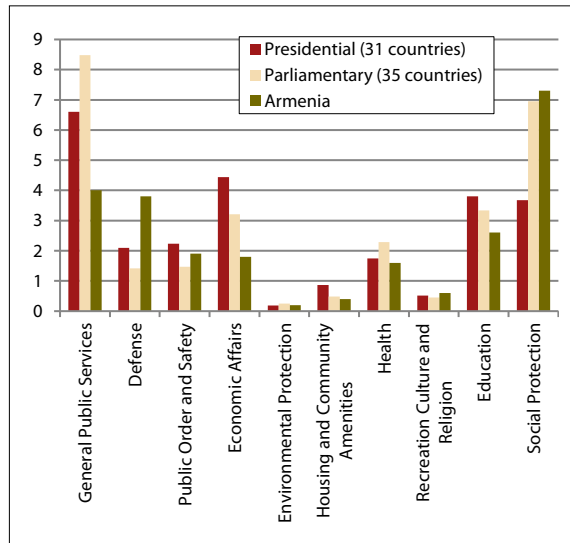


### What Are the Potential Implications for the Case of Armenian Public Finances?

In this section I take a closer look at the presidential-parliamentary dis-balance in their propensity to tax and spend, and ask whether a switch to a parliamentary system in Armenia along with proportional electoral rules may change the size and composition of the budget. For this purpose I first plot the composition of government spending for presidential and parliamentary countries in 2012. Consistent with previous literature, Figure 4 demonstrates that presidential countries, on average, have more targeted spending programs that go into economic affairs, defense, public order and safety. On the

other hand, parliamentary countries can be characterized with broader spending programs that benefit the wider population, such as higher spending on general public services or social protection.

Figure 4: Do Parliamentary Systems Produce Larger Welfare States Than Presidential Systems?



Notes: Data on spending-to-GDP (%) from IMF-GFS for the year 2012 (or 2011 when not available).

Plotting the numbers for Armenia next to these presidential- and parliamentary-averages may be informative. Regarding the overall size of the government, Armenia has quite low spending and taxing levels. Broader representation may help to tax more and consequently spend more. Regarding the composition of spending, however, Armenia already has a very high relative spending on social protection and a parliamentary system may create political institutions that favor an even further increase of this category. A good system of social insurance is, of course, not bad, but the trade-off for a poor country is that scarce funds are spent to solve current problems often at the expense of not spending on perhaps more strategic long-term development projects. With similar reasoning, Armenia's low spending levels on economic affairs need a boost, but a parliamentary system may discourage the allocation of funds in this direction in favor of more popular projects.

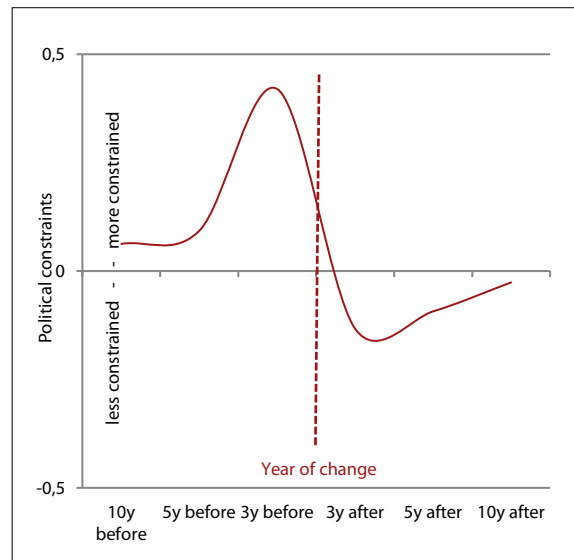
### Why Change the Constitution?

In this section I return to the question where the article started, namely the motivation of a non-benevolent government to reform the constitution. We have seen that, on average, parliamentary systems are more democratic and the politicians in these systems are more constrained. Therefore, the question is whether this stylized

fact can support the arguments of pro-reform officials who claim that a switch to a parliamentary system is primarily motivated by their willingness to democratize and empower more political groups. Or, can it go the other way around? Namely, governments, knowing that parliamentary systems are recognized to be more democratic, select themselves into such a system in order to utilize more political power. If the alternative option for any given autocratic ruler is to ignore (or abolish) the two-term limit and stay in power through quasi-legitimate means, it may well pay off to try the "second-best" parliamentary option.

To answer this puzzle, I again rely on international evidence and study the countries which during the 1990s and 2000s have changed their form of government. In my dataset there are 22 and 25 countries that have switched towards presidential and parliamentary systems, respectively. The majority of countries that have changed their constitutions in either direction are the poorer and less democratic countries (Israel's change to a parliamentary system in 1997 and its reversal in 2002 is one exception).

Figure 5: Evolution of Political Constraints Before and After a Change To a Parliamentary System



Notes: Political constraints index is from the Polcon database. Figure shows the growth of the index from the year of change compared to the growth in countries that did not change.

I then study the level of political constraints of countries before and after a constitution is changed compared to the counterfactual where the constitution has not changed. If a government becomes politically more constrained after a change that would indicate that, indeed, the government has given up some of its politi-



cal power and has made the political institutions more inclusive. If, on the other hand, we observe a drop in the level of political constraints that would indicate that governments gain politically from a constitutional change, and perhaps do so at the expense of marginalizing other political groups.

Figure 5 shows the evolution of political constraints indicator 3-, 5-, and 10-years before and after a constitutional change compared to countries which did not see a change. The results are striking: Politics is most constrained in the 3 years immediately preceding a change to a parliamentary system, however once the change happens, the indicator reverses sharply. Thereafter, the tendency is towards more constrained politics in the long-run. This suggests that reforms, on average, utilize more political power for the government, and that a change is likely to be implemented when governments lose some of their monopoly over politics.

### Conclusions

The body of evidence presented here suggests striking differences between parliamentary and presidential systems. Particularly, countries with parliamentary systems (along with proportional electoral rules), on average, collect more taxes, spend more especially on social programs, have more developed democratic institutions, and more constraint politicians. These differences persist over income groups.

Of course, this descriptive evidence cannot be interpreted causally, such as arguing that a parliamentary system in Armenia will necessarily push for a larger government or for a relatively larger welfare state. The problem is not only the general complexity of identifying the detailed causal mechanisms, but also the deeper contexts of individual countries including issues related to how well are the constitutional rules actually enforced in practice.

What this general patterns suggest, however, is that constitutional rules do matter for economic outcomes. An uncontroversial conclusion, therefore, is to pay more, and perhaps much more, attention to these issues in the public debate. Ultimately, state budgets are one of the main battle grounds in democratic societies where groups with leftist and rightist ideologies can bargain.

This work also sheds some light on the government's motivation to reform. It is true that parliamentary systems are, on average, more democratic than presidential ones. However, a closer look at countries that switched to parliamentary systems in the 1990s and 2000s reveals that governments are most likely to opt for a change when their monopoly over politics is declining. The situation is reversed—that is more political power is utilized—in the initial years following a constitutional change. These results are consistent with the view of the government as a self-interested non-benevolent actor trying to maximize its political power.

#### *About the Author*

Zareh Asatryan is a researcher at ZEW Mannheim and a PhD student at the University of Freiburg.



## CHRONICLE

## From 8 July to 3 September 2015

8 July 2015	The Russian-owned firm Electric Networks of Armenia (ENA) is fined by the Armenian Public Services Regulatory Commission for violation of consumer rights following demonstrations in Yerevan and other cities against electricity price hikes
11 July 2015	Georgian opposition politician and former Parliament Speaker Nino Burjanadze meets with Russian Deputy Foreign Minister Grigory Karasin and State Duma speaker Sergey Naryshkin during a visit to Moscow
12 July 2015	The Georgian Prime Minister's special representative for relations with Russia, Zurab Abashidze, says that recent activity by Russian border guard forces placing banners to mark the "border" with South Ossetia is a "provocation"
13 July 2015	European Council President Donald Tusk postpones his planned visit to Armenia and Georgia due to the Greek debt crisis
13 July 2015	Georgian Agriculture Minister Otar Danelia meets with his Chinese counterpart Han Changfu in Beijing to discuss cooperation between the two countries, including exports of Georgian wine to China
15 July 2015	Georgian President Giorgi Margvelashvili signs a bill on the decoupling of security and intelligence agencies from the Interior Ministry into law
15 July 2015	The Special Commission on Constitutional Reforms releases draft articles of a draft constitution for Armenia that would transform the country into a parliamentary republic
17 July 2015	SOCAR Georgia Petroleum and Sun Petroleum Georgia say that they will challenge fines imposed by the Competition Agency following accusations of price-fixing
20 July 2015	European Council President Donald Tusk starts his visit to the three South Caucasus countries in Tbilisi and notes that Georgia is "definitely a front-runner" in the Eastern Partnership program, while condemning recent demarcation signposts at the South Ossetian administrative boundary line as a "provocation"
22 July 2015	Georgian parliament speaker Davit Usupashvili says that Georgia expects more from NATO to speed up the process of the country's integration into the Alliance following a meeting with NATO Deputy Secretary General Alexander Vershbow in Brussels
24 July 2015	Georgian Prime Minister Irakli Garibashvili says that the government will subsidize increased electricity tariffs from 1 August for vulnerable families
27 July 2015	Dozens of people resume protest against electricity price hikes in the central square of Yerevan
27 July 2015	The brother-in-law of Azerbaijani activist Emin Milli, Nazim Agabeyov, is arrested in Baku on drug charges
29 July 2015	A group of six Iranian lawmakers start a visit to Georgia to study reforms that have helped the country ease regulations and facilitate business activity
1 August 2015	Armenian Prime Minister Hovik Abrahamian says that money from the sale of one of the country's power stations could be used to subsidize an increase in electricity prices
3 August 2015	Ukraine's state security service denies reports on declaring Georgian opposition politician Nino Burjanadze persona non grata in Ukraine
5 August 2015	The Georgian Prime Minister's special representative for relations with Russia, Zurab Abashidze, says that it would be a wrong decision if Russia decided to reinstate trade restrictions on Georgian products
8 August 2015	Georgian Prime Minister Irakli Garibashvili says that "peace has no alternative" on the seventh anniversary of the Georgian–Russian war
9 August 2015	Iranian Parliament speaker Ali Larijani says at a meeting with Georgian MPs in Tehran that the Iran nuclear deal has opened a "new chapter" that will encourage political and economic cooperation between the two countries
11 August 2015	The Azerbaijani police arrests a football player on charges of not reporting a crime in the stage of its planning in relation to the beating of a journalist to death
12 August 2015	A Russian military court in Armenia sentences a Russian soldier accused of killing an Armenian family to ten years in prison
13 August 2015	A Baku court sentences Azerbaijani human rights activists Leyla Yunus to 8 and a half years in prison and her husband Arif Yunus to seven years on charges of economic crimes

17 August 2015	The Georgian parliament passes a controversial banking law that foresees transferring banking supervision responsibilities from Georgia's National Bank to a newly created agency
19 August 2015	Georgian President Giorgi Margvelashvili says in reference to Russian military exercises in the breakaway regions of Abkhazia and South Ossetia that "it is unacceptable to carry out military maneuvers on occupied Georgian territory"
22 August 2015	Azerbaijani police clashes with protestors in the town of Mingachevir following the death of a young man after he was questioned by the local police
24 August 2015	Azerbaijan and the disputed region of Nagorno-Karabakh claim "enemy casualties" after an outbreak of violence
26 August 2015	NATO Secretary-General Jens Stoltenberg makes a two-days visit to Georgia to open a joint military training center for NATO and Georgia
27 August 2015	The Russian Foreign Ministry says that the opening of a joint NATO–Georgia training center outside of Tbilisi is a "serious destabilizing factor" in the region
29 August 2015	The Georgian TV station Imedi announces that it suspends its political talk shows from Autumn
1 September 2015	A Baku court sentences Azerbaijani journalist Khadija Ismayilova to seven and a half years in prison on charges including tax evasion
1 September 2015	Armenian police clash with protestors amid demonstrations against energy price hikes in Yerevan
1 September 2015	Georgian Prime Minister Irakli Garibashvili announces that Economy Minister Giorgi Kvirikashvili will replace Tamar Beruchashvili as Foreign Minister
3 September 2015	The Georgian Parliament overturns a presidential veto on a package of bills that transfer supervisory functions on the banking sector from Georgian National Bank to a newly created agency

*Compiled by Lili Di Poppo*

*For the full chronicle since 2009 see <[www.laender-analysen.de/cad](http://www.laender-analysen.de/cad)>*

**ABOUT THE CAUCASUS ANALYTICAL DIGEST**

Editors: Tamara Brunner, Lili Di Puppò, Iris Kempe, Natia Mestvirishvili, Matthias Neumann, Robert Orttung, Jeronim Perović, Heiko Pleines

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