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# **Albanian Political-Economics: Consequences of a Clan Culture**

by

**Klarita Gërxhani\***

and

**Arthur Schram\*\***

## **Abstract**

We study the politico-economic interaction in a country in transition from a communist regime to a democratic, free market system, to wit, Albania. It is argued that the politico-economic system there is characterized by the existence of clans. Both the communists and the first democratically chosen government applied policies that favored specific clans. Moreover, a popularity function estimation shows that voters related to different clans react in a distinct way to party policies.

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\*Corresponding author, Tinbergen Institute and University of Amsterdam  
*address:*

Department of General Economics  
Roetersstraat 11  
1018 WB Amsterdam  
the Netherlands  
*email:* klarita@fee.uva.nl

\*\*CREED, Department of Economics and Econometrics, University of Amsterdam

*'In this world, everything is temporary, but the most temporary thing is political power' - Rexhep Qosja (Albanian academic).*

## **I. Introduction**

All over Eastern Europe, countries are in transition from communist political and economic regimes to democratic market economies. Each country brings its own history and culture affecting the transition process in distinct ways. Hence, even though the transition economies have many common characteristics, there are country-specific features that should not be neglected. Notwithstanding the merits of generalization in modeling economic processes, careful analysis of specific institutions can help us understand real world phenomena in greater depth.

In this paper, we present such an analysis. In particular, we will study a politico-economic structure that is observed in a relatively small country, Albania. The history of this Balkan nation has developed a political culture and institutions that make it of great interest for scholars of political economics. In particular, the system is characterized by the existence of clans that affect both voter behavior and governmental policies. We shall argue that these clans had an influence in the non-democratic years as well as in the years of electoral competition.

Aside from the country specific analysis, there are two more general contributions in this paper. First, it distinguishes the operation and influence of clans on politico-economic outcomes from that of interest and ethnic groups. Second, we study the operation and influence of clans under both dictatorship and democracy.

The organization of this paper is as follows. In the next section we provide a description of Albania, and its political and economic history. Section 3 presents our analysis of clans. It starts with a description of this phenomenon in general and follows with an overview of the way Albanian clans have affected government policies on the one hand and voter behavior on the other. Section 4 concludes.

## **II. Albania - A Politico-Economic Overview**

Albania is a small European country, located in the western part of the Balkan Peninsula, with -as any other country- its own specific history. Several detours, dead ends, shortcuts,

severe struggles, unexpected outcomes and, especially, survival characterize its history. Noteworthy for the politico-economic analysis is that Albania has hardly ever had a democratic political system. This can be explained by the existence of antagonistic political and cultural entities. As a consequence of this internal division, this country has traditionally been used to satisfy the voracity of international powers.

For the purpose of this study, we focus on the main developments of Albania after the Second World War. It is the politico-economic interaction in this era that we wish to describe and analyze. Though many characteristics of this system may be explained by the country's previous history, it is not the goal of this paper to provide such explanations.

### **From Communist Dictatorship to Political Pluralism**

A combination of external conditions created by the Second World War and internal contradictions within the new Albania produced Albanian communism. For about four decades, Albania was a completely isolated country, due to the highly repressive communist regime of Enver Hoxha. The political regime was a dictatorial one, while the economic system was completely socialized. No other country in Eastern Europe had a socialisation of property as complete as Albania did.<sup>1</sup> Consequently, 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.

It is quite difficult to pinpoint the exact year in which real political pluralism and economic reforms started. In fact, democratic reforms (including the introduction of political pluralism) began in 1990, as a result of the massive request for changes. Often, however, the 1992 elections are considered to be the real start of the changes, because this is when the communists had to transfer their power to the opposition.<sup>2</sup> It was at this time that, after forty-five years of monocracy, the first opposition party was established, namely the Democratic Party of Albania (DPA), led by Sali Berisha. As a consequence of

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<sup>1</sup> For a survey of this period, see Schnytzer, 1982.

<sup>2</sup> In fact, there were democratic elections in 1991, as well. These were won by the communist party. This is partly due to their support from rural areas, where communist sympathies remained strong and where more than 60% of the population is located. Furthermore, it is generally agreed, that the time between the start of the reforms in 1990 and these 1991 elections was too short to allow new and inexperienced parties to set up an organizational structure and develop resources that would allow for a successful electoral campaign.

the grave political and economic recession that Albania suffered in the last years of communist rule, the DPA won the democratic elections in 1992 by a landslide.<sup>3</sup> Following these elections, the Albanian people had great hopes for the future of democracy in their nation, counting on the flexibility and diplomacy of the new political elite.

While the DPA was in office (1992-1997), dozens of new parties were established, an open foreign policy was followed and democratic freedom was provided to everybody, at least at the beginning of DPA's governance.<sup>4</sup> Notwithstanding the establishment of new parties, the biggest opposition party in Albania – until 1997 - was the Socialist Party of Albania (SPA), led by Fatos Nano. The majority of its members came from the former communist party. This is why the SPA did not have a significant support from the population, at the beginning of transition. However, in contrast to the small parties, the SPA succeeded in maintaining a level of support above that of a small group of resistant activists. In fact, the SPA electorate was growing during the DPA governance and “the government could do nothing to shake the loyalty of its traditional southern strongholds or the support of dispossessed urban workers who could not find jobs or emigration opportunities” (Vickers and Pettifer, 1997). The political and economic failure of Berisha's government was another important contribution to it.<sup>5</sup>

### **The Economy**

In terms of economics, the new democratic government started the implementation of a profound market-oriented economic program, including macroeconomic stabilization and price liberalization<sup>6</sup>. In light of the high expectations of the Albanian people and the very poor state the country's economy was in, this government applied a 'shock therapy'. However, a 'big-bang' or 'shock therapy' strategy may undermine popular support and may unnecessarily lead to reform reversal (Dewatripont & Roland, 1995). Furthermore, fast reforms often stress speed at the cost of institutional balance (Nutti, 1996). This is

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<sup>3</sup> See the appendix for a description of the Albanian political parties and electoral system.

<sup>4</sup> For more details, see section 3.

<sup>5</sup> Of course, one important failure of the DPA government was the existence and collapse of the Ponzi Schemes. An analysis of these schemes is beyond the scope of the present paper (see Sadiraj, 1999, for more information). Schnytzer (1999) argues that the DPA policy towards Ponzi schemes may be related to a reallocation of funds from the south to the north.

what happened in Albania. Former institutions vanished before fundamental new institutions had time to develop. For example, Sadiraj (1999) argues that proper financial institutions were missing.

Aside from political pressure, the Albanian people also suffered from a deep economic crisis under the communist regime. The growth rate of the economy, in the period 1970 – 1990, was sharply decreasing and eventually became negative. There were no foreign investments after 1980 (Gërxhani, 1998). Real income per capita declined, an increasing number of goods and commodities were lacking in the market and, as a consequence, the difference with the West grew. At the end of the communist regime, in 1991, there was neither a plan nor a market, but just a state of chaos, which was further aggravated by the fierce political conflicts, strikes and absurd physical destruction such as burglaries, ruins, and the burning of social property (Gërxhani, 1998).

This was definitely a time for starting economic reforms. One of the main strategies considered by the government in order to reach its goal of stabilization and liberalization was privatization and the development of the private sector. This was considered to be the most important institutional change in transition to a market economy.<sup>7</sup> In fact, however, the privatization process was also used by the democratic government to increase its popularity through various economic and political favors to certain individuals, strata and social groups (Shala, 1997 & the Ministry of Public Economics and Privatization, 1997). In fact, this is a first example of how clan policies play an important role in the Albanian electoral competition.

Table 1 presents the main macro-economic indicators of the 1990s. It shows how the DPA managed to turn around the economic decline reasonably well after coming to power in 1992. Especially successful were the results with respect to hyperinflation and unemployment. On the other hand, major problems still existed up to 1997, with respect to the trade balance and budget deficit. All in all, table 1 appears to show that the economic policy of the DPA government was a success, however. Nevertheless, this table only shows the aggregate numbers. There are various reasons why reality may have been

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<sup>6</sup> The development of the economy is discussed in more detail, below.

<sup>7</sup> “We consider it (the privatization process) as the final split of Albania from the former communist planned economy and establishment of a ‘popular capitalist’ system” (Berisha, as quoted in “Rilindja Demokratike” newspaper, 10-1-1995).

**Table 1.** Some macroeconomic indicators for the period 1990-1997

	1990	1991	1992	1993	1994	1995	1996	1997
<b>Real GDP growth ( %)</b>	-10.0	-28.0	-7,2	11.0	8.3	13.3	8.9	-7.0
<b>Rate of inflation (average)</b>	0	35,5	226	85	22.5	7.8	12.7	42.1
<b>Exchange rate (Lek/USD)</b>	8.9	24,2	75	102.1	94.7	92,8	104.5	149.1
<b>Trade balance (Mil. USD)</b>	-150	-308	-471	-490	-460	-475	-692	-490
<b>Unemployment rate (%)</b>	--	30	--	22	19	13	12	17
<b>Budget deficit (% GDP)</b>	-15.4	-30.7	-21,5	-13.7	-9.0	-8.7	-11.3	-12.2

*Source:* Gajo (1999) as obtained from Ministry of Finance, 1998 and Institute of Statistics, 1997.

less positive than these aggregate indicators seem to imply.

- First of all, it was relatively easy to get impressive growth rates, due to the very poor initial state of the economy.
- Second, the official unemployment rate is relatively low due to a very widespread informal labor market (Gërxhani, 1998).
- Third, migration and international financial assistance also had a positive effect on the economic indicators in the early years.
- Vaughan-Whitehead (1999) provide a fourth reason by arguing that the systematic presentation of higher figures by the democratic government was a political manoeuvre.
- Finally, Vaughan-Whitehead (1999) also argues that the impressive figures of table 1 were achieved at the very high costs of social dimensions.

All in all, it would appear that the success of the Albanian reform may have been more superficial than generally assumed.

Whatever the extent of actual success by the DPA government, the economic results were demolished in 1997, when a collapse of the so-called Ponzi schemes led to complete economic and political chaos in Albania. In this paper, we do not wish to address this most recent phase in Albanian history (a detailed analysis is given by Sadiraj, 1999).

Instead, we focus on the post-war communist period (dictatorship) and the electoral competition (democracy) in the period 1990-1997.

### **III. Clans in Albanian Politics**

#### **Clans, Partisans, and Non-partisans**

To some extent, political power is used in most countries to redistribute welfare in order to gain and maintain political support. In western democracies this is often institutionalized by either fixed constituencies (electoral districts) or through the role of interest groups or both. It is generally recognized that politicians actively represent the interests of their constituencies or of specific groups. Voters are assumed to decide on what party to support by considering some individual specific trade-off between private and general interests.

Interest groups constitute one way in which specific groups are related to certain political parties. Another way is through ethnic or religious voting. In this case voting is based on an ethnic or religious relationship between voters and specific parties. In fact, to a large extent voters make a decision about what party to vote for independent of the policies pursued by the party. Only policies with respect to race or religion are relevant. Direct relationships between parties and voters do not need to exist.<sup>8</sup>

Interest groups and ethnic voting can be seen as two extremes of group-related voting. The term 'clans' is often used to describe a phenomenon that takes an intermediate position between the two. Clans have a much closer internal relationship than interest groups. People in a clan can be related through kinship, culture, religion, race and language, as well as through political interests. This makes the ties much stronger than in interest groups. On the other hand, clans are not only related to parties through ethnic bonds. The ties are not as strong as with ethnic voting. Moreover, much more than with ethnic voting, the relationship is based on policies favoring the clan.

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<sup>8</sup> Note that this is an extreme representation. We are not claiming that ethnic voting as described here is a large scale phenomenon in 'developed' democracies. It does exist, however. For example, there are small religious parties in the Netherlands that can rely on a fixed group of voters (based on their religious denomination) no matter what policies they pursue.

Note that, interest groups, ethnic voting groups and clans are theoretical concepts. In practice they are not always completely distinct. Many groups in the real world will be a hybrid form of interest groups and clans or of clans and ethnic groups. Nevertheless, the distinction is useful. It provides a guideline to base discussions on.

Our conception of the clan phenomenon has the following consequences.

- Contrary to interest groups, members of a clan are sensitive to *which* party is favoring them. Because of the ‘extra-political’ ties, they will act less strongly to unfavorable policies by their ‘own’ party than by some other party. Note that this is not generally thought to be the case with interest groups. On the other hand, as argued above, other policies than those with respect to race, play a less important role with ethnic groups than with clans.
- The consequence of the existence of clans goes beyond the clan members themselves. The relationship between people in a clan is very close, but they are generally thought to be relatively small compared to the complete electorate. However, there are also many voters who are less closely related to a clan but who profit from party policies favoring it. For example, a clan policy might allocate funds to a region, profiting many non-clan members as well. These voters will determine their party choice in a way that is similar to that of the clan members, even though it is less strongly linked to a specific party. We refer to this group as ‘*partisans*’. Like clans, their voting behavior depends on both the policies (and the extent to which they profit from them) and the party undertaking the policy.<sup>9</sup> Though the effect is less strong than with clan members, they are less likely to ‘reward’ or ‘punish’ the party related to them than the other parties. Because the group of partisans related to a clan is much larger than the clan itself, the political influence of clans goes far beyond their own numerical strength.
- There is also a group of voters that is not related to a clan. We refer to these as the ‘*non-partisans*’. They are assumed to determine their vote based on general economic

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<sup>9</sup> Note that most interest group models assume that voting depends on policies but not on the party concerned.

conditions. As a consequence, if clan policy is thought to be detrimental to the general economic development, these voters will oppose any such policy.

Until now we have provided a general description of clans and related phenomena in a political system. A common element is that politicians favor specific groups of voters. The way in which this occurs might vary across countries, however, possibly depending on a country's political stability.

One way to see the influence of political stability is by using the game theoretic setting of Myerson (1993). He shows that equilibria can exist where politicians make campaign promises to special interest groups. He argues, however, that rational expectations imply that political candidates must make promises that they can actually fulfill if elected. This assumption may be valid for well-established democracies. In fragile politically unstable democracies like Albania, promises of political candidates are more difficult to enforce, *ex post*. There are external circumstances and institutional instabilities that make it very difficult to follow up on promised and planned policies. Voters are aware of this and of the fact that this agency problem makes it easier for candidates to renege on campaign promises. Hence, the Myerson analysis is not applicable. This may lead voters to support candidates with whom they have extra electoral relationships – say candidates from a clan. This might explain why the role of clans is much stronger in countries in transition than in established democracies.

### **Clans in Albania**

Historically, Albania has always been a divided society. As is often observed, the division is partly geographical (in this case between north and south). However, this division appears to be more than simply that. For example, at the start of the 1920s, the northern part of Albania consisted mainly of conservative landowners and tribal 'bajraktars'<sup>10</sup>, who were led by Ahmed Zogu (the later King of Albania). The southern part consisted of liberal intellectuals, democratic politicians, and progressive merchants

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<sup>10</sup> 'Bajraktars' is the Albanian name for northern landowners and leaders who governed the northern Albania based on age-old institution of the blood feud and the patriarchal structure of the family.

who looked towards the West.<sup>11</sup> This division provides a basis for the clan culture. Even though this basis is no longer a *strict* division in north and south, many argue that there is still an important geographical element (Shala, 1997). On the other hand, some (e.g. Rama, 1997) argue that there is only a strong *cultural* ‘north-south’ division<sup>12</sup>, unless politicians politicize the cultural difference to manipulate the electorate. In our view, this politicization is exactly what is happening in Albania.

Therefore, we now proceed to consider the evidence of a southern clan (supporting the communists and, subsequently, the SPA) and a northern clan (supporting the DPA)<sup>13</sup>. The arguments presented above make the following predictions. First, government policies in both the communist and the democratic period favored clans with partisan spillovers to the south and north, respectively. Second, there will be a reluctance to vote against one’s own or in favor of the other clan’s party. We start with qualitative evidence of clan-based policies. This is followed by statistical evidence in support of the predicted voter behavior.

### **Clan Policies**

There is mainly qualitative evidence that clans played a role in the policies pursued by the communist regime in spite of one of its main goals: socialization of the whole society. The idea here, is that the communists favored the southern clan. The following observations support this notion.

- Hoxha’s origin is from the south. His political, economic and social policies strongly favored his southern clan, families and regions. The elite formed under communism originally came from Tirana and the Tosk south, where the communist led Partisan movement had been strongest (Vickers and Pettifer, 1997).<sup>14</sup> Consider, for example

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<sup>11</sup> Of course, the majority in the North and South consisted of peasants. However, cultural and political developments in each region were mainly determined by the non-peasants.

<sup>12</sup> Note that one possible element of this *cultural* division is also the existence of two main linguistic dialects – Gheg and Tosk – spoken in the north and south, respectively.

<sup>13</sup> We do not exclude the fact that they might exist more than one clan per region. What we say is that there are two major clans, whose influence is worth analyzing in this paper. Government policies supporting one clan will have spillover effects to other clans and partisans in the region concerned.

<sup>14</sup> An exception to this observation is Alia, who was born in the northern city of Shkodër.

the composition of the Politbureau in the communist era. In the 6 Politbureaus (with 5 year terms) while Hoxha was in power (1956-1961 until 1981-1986) the number of member varied between 15 and 19. Of the 100 members in total, 82 (82%) came from the south and 18 (18%) from the center or north. In contrast, of the 45 members of the two DPA governments in the 1992-1996 period, 26 (58%) came from the south and 19 (42%) from the center or north.<sup>15</sup>

- Hoxha's leadership extended the new socialist order to the more rough and isolated northern highlands, bringing down the age-old institution of the blood canon and the patriarchal structure in the northern clan and destroying the semi-feudal class of bajraktars. As a result, anti-communism was always stronger in the north than in the south.
- Geographically, the north of Albania borders undeveloped territories of the former Yugoslavia and it consists mainly of highlands. Climatically, it is characterized by a very cold winter and a cool summer. For these reasons, it has traditionally been easier to economically develop the south than the north. Hence, the north has always been an economically underdeveloped region. The communist government made no effort to change this. Hence, even economically, the northern population was much more discontented than the southern one.

All in all, at the end of the communist era, the Albanian society was polarized. This appears to have been at least partly a consequence of the regime applying policies that favored one particular clan. Because there were no free elections, this clan policy could not result in electoral defeat in future elections. This implies that the situation was different from that in the democratic period which followed.

The 'wind of change' in Albania started in 1990. Massive bloodshed and confrontation were avoided, partly because similar processes were taking place all over Eastern Europe, but mainly as a consequence of the peaceful way in which Alia (Hoxha's successor) gave up power. The communists resigned, making it possible for Albania to integrate its politics and institutions with the West, which many Albanians have historically viewed as

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<sup>15</sup>These numbers were obtained from Enver Hoxha's reports to the Central Committee of the Labor Party of

their cultural and geographic home. The electorate entrusted this national commitment to the new democrats of the DPA, led by Sali Berisha, by supporting them significantly in the general elections of 1992.

The newly emerging Albanian political elite was mostly composed of last minute converted members of the former Communist intelligentsia without any significant political experience (Rama, 1997). However, it also included part of the population that was previously excluded by the communist elite. The most trustworthy structures for the new politicians were their families and relatives, and many pacts went through them (Shala, 1997). The new party (DPA) grew on the basis of traditional loyalties, with the communists soon facing disintegration in northern areas such as Shkodër, with its long history of right-wing support<sup>16</sup>, while in communist strongholds in the south as Fier and Berat, the DPA only developed slowly (Vickers and Pettifer, 1997). This provided a fertile starting point for the enforcement of clan policy by this democratically chosen government.

Indeed, Berisha's origin is from the north, and he appeared to favor the clan whose major support is in the north, just like Hoxha had favored the other clan. Even though many agree that such clan policy was undertaken by Berisha (e.g. Rama, 1997), it is not easy to get hard evidence for it. Below, we will present some economic data which appear to support this assertion. First, we discuss other policies that have been argued to imply that Berisha favored the northern clan.

In contrast to the southern communist elite, the key positions in pluralist Albania were held by northerners.<sup>17</sup> According to Vickers and Pettifer (1997), nobody could have anticipated the scale of nepotism in Berisha's administration. They claim that every ministry and institution was loaded with northerners and professed DPA loyalists, and that their appointment to ministerial office and other positions was accompanied by a vast

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Albania, for their 3rd - 8th Congresses as well as from Vickers and Pettifer, 1997.

<sup>16</sup> This northern city holds the largest catholic community (10%) in Albania, which has historically had strong relationship with the west and therefore always maintained a bad relationship with communism.

<sup>17</sup> Of course, some key positions are in the government. Though 26 of the 45 government positions in this period were occupied by people from the south, these were mostly less important positions than the ones occupied by politicians from the north.

migration from the north to Tirana as families sought to capitalize on family members and friends who were now holding high office in the capital.

In fact, it is generally thought that Berisha's origin<sup>18</sup> combined with the previous communists' clan policy had an important influence on the extent of his clan policy. It is certainly the case that - even though Berisha was a former communist himself<sup>19</sup> - under his leadership, the DPA started a very painful anti-communist reform when it came to power. This led to a polarization of the Albanian society in two main and antagonistic groups: pro- and anti- communism. To quite some extent, this polarization ran parallel to the division in clans.

During his regime, the clan policy increased over time and started to lead to objections from the opposition's clan, from independent, non-clan citizens (non-partisans), and from members of Berisha's own party who were not part of his clan. In turn, this led Berisha to undertake dictatorial measures. Examples are the imprisonment of the leader of the opposition, and an (ill-fated) attempt to define a constitution to his own advantage. This led to growing unrest in Albanian society as a whole and within the DPA in particular.<sup>20</sup>

As for economic policies, it has been argued that the short-term goals typically pursued in transition economies are more easily achieved by redistributive activities than by productive ones (Knaack, 1996). This appears to be true for Albania in the period under consideration. In fact, the DPA appears to have redistributed funds in favor of the northern clan (Ministry of Public Economics and Privatization, 1997).

To some extent, this appears in the data on unemployment. No official

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<sup>18</sup> Vickers and Pettifer (1997) argue that Berisha's origin from the north-eastern highland dictates his approach to politics, where highland clans are firmly bonded together, and absolute loyalty to blood relations is unquestioned.

<sup>19</sup> He was considered a hard-line communist during his 12 years as a member of the communist party (PLA). See Vickers and Pettifer (1997) for evidence.

<sup>20</sup> Another piece of evidence of clan policy was suggested by Adi Schnytzer. It is related to Berisha's alliance with the self-proclaimed King of Albania, Leka Zogu. After being ignored several times by Berisha's regime, Zogu was suddenly invited by Berisha to participate in the general elections of 1997. One possible explanation is that Zogu - previously considered (by Berisha) as a political competitor regarding northern votes - later (in difficult times of 1997) appeared to be a helpful collaborator to win the votes of hard-core Royalists, who are mainly located in the north.

unemployment existed during the communist regime.<sup>21</sup> A comparison of the rate of unemployment in 1993 with that in 1996 gives some insight in the effects of the DPA policies, which should have a stronger effect in 1996. A first observation is that the unemployment rate reduced significantly for the whole country in these three years, from over 22% to under 13%. Though all regions profited, the effect was strongest for the North, where the unemployment rate reduced by 12 percentage points. In the rest of the nation, the rate reduced by only 9 percentage points. Hence, the relative position of the north improved. The latter observation is also supported by the fact that the percentage of the total unemployed that lived in the north declined from 32.5% to 28.6% between 1993 and 1996, even though the proportion of the population living in the north remained stable at about 29%.<sup>22</sup>

Other evidence is given by the extent in which social assistance was provided by the government to inhabitants of various regions. Whereas 35.3% of the population in northern regions received such support in 1994, only 11.2% of the population in the southern districts received assistance (Gajo, 1999). In this year, the unemployment rate was only slightly higher in the north than in the south.

### **Clans and Voter Behavior**

As argued above, one of the characteristics of a clan culture is the distinct voting behavior of various groups. Especially the voting behavior of partisans (distinct across the different clans) is politically important. In order to analyze this behavior, we consider the election result per region for the Albanian general elections in 1996 and 1997<sup>23</sup> and classify the 35 electoral districts into three regions: northern (12 districts), central (12)

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<sup>21</sup> Hobdari (1998) presents unemployment rates of around 10% for the last years of this regime. He only presents aggregate data for this period, however. The data used for the discussion here were provided by the Albanian Center for Economic Research.

<sup>22</sup> Of course, these numbers do not formally *prove* that policies in favor of the northern clan were being undertaken. There might be other explanations. Nevertheless, given the fact that it is very difficult to get reliable economic data for Albania, we cannot statistically test this hypothesis against others. We believe that clan policy provides a straightforward explanation for the numbers given, however.

<sup>23</sup>We are grateful to the Albanian Ministry of local government for providing us with the political data. The 1996 elections are often thought to be characterized by a lot of fraud. The 1997 elections followed the massive unrest after the collapse of the Ponzi Schemes. Nevertheless, the results we obtain show systematic and interpretable differences across regions and relationships between the economy and voting.

and southern (11).<sup>24</sup> Table 2 summarizes the election results per region.

**Table 2:** Election results for DPA relative to SPA

	<b>1996</b>	<b>1997</b>
<b>North</b>	65.2	45.3
<b>Central</b>	62.9	27.1
<b>South</b>	48.4	17.8
<b>Total</b>	59.1	30.4

*Note:* The numbers represent the votes for DPA as a percentage of votes for DPA and SPA.

The table shows an enormous decrease in the popularity of the DPA between the two elections (the SPA won the elections in 1997 after the DPA lost almost half of its support). The difference across regions is also remarkable. Independent sample t-tests (with unequal variance) show that all pair wise differences are statistically significant at the 1% level except the difference between the northern and central regions in 1996 and the difference between the central and southern regions 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.

The idea of a clan's influence on voting behavior is not just that the percentage of votes is higher in the region concerned. It is also hypothesized that the voters react differently to policies by the party concerned, dependent on the clan they relate to. In Albania, this would imply that voters in the south would react differently to DPA policies than voters in the north. In the south, partisans are assumed to react very strongly to economic swings attributed to the DPA government because they are more sensitive to these policies than a non-partisan would be. Partisans in the north have a strong alliance with the DPA irrespective of its policies. The central region can be expected to take an intermediate position. The reason is that it is generally assumed that clans and partisans play a less important role in the center than in the north or south. Hence, there are more

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<sup>24</sup>We could not use the electoral data from the region Kurbin (in the North), because the economic data for this region (needed for the analysis that follows) were missing.

non-partisans in the center and their reaction to policies is not influenced by clan motivations in the way voting in the north and south is. Their voting behavior is mostly affected by the general economic situation in the country. To test these hypotheses, we estimated a popularity function of the following form:

$$\text{Ln}(V_{\text{DPA}}^i/V_{\text{SPA}}^i) = \beta_0 + \beta_{97}D97 + \beta_1^j \text{Un}^i + \varepsilon^i, i=1,\dots,35; j=1,2,3,$$

Where  $V_p^i$  denotes the vote share of party  $p$  in district  $i$  in 1996 or 1997,  $j$  denotes the region ( $j=1,2,3$  denote the northern, central, and southern regions, respectively) that  $i$  lies in,  $D97$  is a dummy representing the 1997 elections,  $\text{Un}^i$  denotes the unemployment rate in 1996 or 1997 in district  $i$  and  $\varepsilon^i$  is a white noise error term. The coefficients  $\beta_0$ , and  $\beta_1^j$ , will be estimated. Note that we allow the coefficients concerning the unemployment rate to vary across regions. This allows us to test the hypothesis that not only the party choice as such (as indicated by the t-tests mentioned above), but also the voters' reaction to unemployment may differ across regions.<sup>25</sup> Defining the null hypothesis that voting patterns are the same across regions, with the hypotheses described in the previous paragraph as the alternative this yields:

$$H_0: \quad \beta_1^1 = \beta_1^2 = \beta_1^3 < 0,$$

$$H_1: \quad 0 \geq \beta_1^1 > \beta_1^2 > \beta_1^3.$$

For completeness' sake, we first estimated the model imposing the  $H_0$  restriction that  $\beta_1^j$  is constant across regions. This gives  $\beta_0=0.641$  ( $t=3.532$ ),  $\beta_{97} = -1.259$  ( $t=-6.722$ ), and  $\beta_1 = -2.205$  ( $t=-1.898$ ). Hence, a higher unemployment decreases support for the governing party DPA, though the effect is not statistically significant at the 1%-level. As could be expected from the election results, there is a strong effect of the 1997 election dummy. The explanatory power of this model is relatively low ( $R^2=0.469$ ).

The explanatory power increases substantially ( $R^2=0.707$ ) when we allow the coefficients to vary across regions. Table 3 presents the estimation results.

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<sup>25</sup>We are grateful to the Albanian Center for Economic Research (ACER) for providing us with detailed economic data that allow us to undertake these tests.

**Table 3:** Estimated popularity functions

Variable	Coefficient	Absolute t-value
Constant	0.653	4.553*
$\beta_{97}$	-1.255	8.690*
$\beta_1^{\text{north}}$	1.802	1.497
$\beta_1^{\text{central}}$	-2.845	3.111*
$\beta_1^{\text{south}}$	-6.569	4.831*

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

These results show important differences across regions. In the northern districts, voters react positively to unemployment, though the coefficient is not statistically significant at conventional levels. In the central and southern regions negative responses to the unemployment level are observed. The strongest (negative) response is found for the southern districts. A formal test of  $H_0$  versus  $H_1$  shows that the equalities in  $H_0$  are rejected in favor of the inequalities of  $H_1$  ( $p < 0.01$ ). This supports our notion of two clans, based mainly in the north and south, where Berisha's DPA is supported mainly by the northern clan. In that case, we expect his own clan (in the north) to be less sensitive to unemployment differences than the opposing clan (in the south). This is what we observe. The fact that we find intermediate results for the central region can be explained by the hypothesized relatively large number of non-partisans there.

#### IV. Concluding discussion

The specific history of any nation - but especially of nations in transition - is very important to understand its politico-economic development. In one way or another, each country has its own pattern. Therefore, it can be very useful when studying the politico-economic interaction to take account of the country specific institutions that have developed over the years. In this paper, we have focussed on the institutions that occur in a nation in transition from a communist regime to a free market democracy, Albania.

One important element of the pattern throughout Albania's history in the second half of the 20th century is the existence of political clans. We have argued that the clans

have a significant influence in Albania. This was the case both during the communist regime and in the democratic era that started in the early 1990s.

Clan-based politics lead to an exaggeration of the usual redistributive tendencies of regional-based politics. In particular, one gets more extreme redistribution among regions, but also much more extreme inefficient redistribution among supporters (e.g. high levels of corruption or huge losses due to patronage). These inefficient outcomes appear to be more extreme in a country like Albania -whose political system is characterized by the existence of clans– than in countries where clans are not so pronounced.

All in all, to understand Albanian government policies one must therefore take the existence and influence of clans into account. Though electoral competition might affect such policies and cause a shift towards politics in which interest groups instead of traditional clans are important, clans have been and are important for understanding both voting behavior and government policies in post war Albania.

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## Appendix: Politics in Albania

Albania lacks a tradition of party formation. Under the communist regime, opposition forces and dissident behavior were eliminated very effectively. The political system was based on a monarchy. Therefore, at the beginning of the 'wind of change', Albanian politics was undergoing a new experience.

### Parties

During the Communist period, there was only one party involved in Albanian politics, the Labor Party of Albania. This party was governed by communists, who did not allow a multi-party political system. The democratic changes after 1990 brought pluralism to Albanian politics. Since 1992, dozens of new parties have been established. Nevertheless, there are only two main parties with significant influence in Albania, the Socialist Party of Albania (SPA) and the Democratic Party of Albania (DPA). The following is a brief description of the six most important political parties in Albania.

- *DPA*. The first democratic party, established in 1991, was the Democratic Party of Albania (DPA). Its initial and current leader is Mr. Sali Berisha. DPA is a right wing oriented party with a propensity to democratic ideas. It draws support from all social strata. Imitating the former communist regime, the Democratic Party has created its own class of party-dependents. DPA was the leading party in government, during the period 1992-1997. There have been a lot of conflicts within the party, which have resulted in the formation of several internal antagonistic fractions. DPA claims to support a social-market economy. However, *de facto*, they applied the 'shock therapy' approach. The DPA has been continuously supported by international organizations. Since 1997, DPA is the largest opposition party in Albania.
- *SPA*. The Socialist Party of Albania is the result of a renovation of the former communist party, the Labor Party of Albania. The party re-named itself in 1991 and since then, its leader is Mr. Fatos Nano. Its main support comes from rural areas (mainly in the south). Being the successor of the previous communist party, besides inheriting the majority of its members<sup>26</sup>, it has also inherited the communists' organizational and institutional structures. Consequently, SPA is the largest political institution in Albania. However, this inheritance has its own disadvantages, namely the internal conflict between the more conservative group and the reformist one. The economic policy of the SPA is more socially market oriented than that of the DPA, considering the 'gradualist' approach preferred by the socialists. Since 1997, the Socialist Party of Albania is the leading party in the government.
- *SDPA*. The Social-Democratic Party of Albania is a left-center-oriented party, a current ally of the Socialist Party in government;
- *DA*. The Democratic Alliance is a right-center oriented party, a current ally of the Socialist Party as well;

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<sup>26</sup> About 40 percent of the current membership was member of the Labor Party of Albania.

- *RP*. The Republican Party is a right oriented party, traditionally an ally of the Democratic Party, but currently independent.
- *PHR*. Party of Human Rights, a representative of Greek minorities in Albania.

### **Parliamentary and Electoral System**

In 1990 and 1991, popular protests forced the communist party to allow democracy in Albania. The electoral system –including the number of seats in parliament and the balance between single member districts and proportional representation- has changed continuously in the 1990s. Throughout this period, a single chamber parliament within a republic was maintained, however. More information about the electoral system can be found in Rama 1997.

The first democratic elections, held in March 1991, were won by the Labor Party of Albania. It won a majority of 68 percent (169 seats out of a 250-member single chamber parliament). On March 22<sup>nd</sup>, 1992, the second democratic elections were held, in which the DPA won a majority of 62 percent of the votes (yielding 92 out of 140 seats) compared to 26 percent for the SPA. The general elections of May 26<sup>th</sup>, 1996 were again won by the DPA, who obtained 56% of the votes (20% for the SPA) and 122 out of 140 seats (10 for the SPA). Intimidation and fraud in favor of the ruling party were generally thought to have characterized these elections. Under international pressure, new elections were held in 1997. These took place after the collapse of the Ponzi schemes and the SPA won by a landslide, obtaining 52,8 percent of the votes and 99 out of 155 seats. The current government is a coalition of mainly left-oriented parties, where the Socialist Party dominates.