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Causes

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Abstract

State weakness has come to be recognized as a key problem for the transformations in a number of Eastern European countries, particularly those East and South of enlargement. This paper addresses the issue firstly by asking how state capacity can be assessed and observed empirically, and secondly, by considering the variables which may explain why some countries have developed weaker states than others.

The paper is divided into three broad sections. The first section discusses the issue of how to assess state capacity. As a starting point, I distinguish between the state as a provider of solutions and the state as a source of problems. Both aspects need to be addressed in any evaluation of a state's capacity. Subsequently, the section discusses a number of qualitative and quantitative indicators which can yield useful information on the 'state of the state'.

The second section turns to possible explanatory approaches. It considers the potential importance of legacies, of international integration, of the level of development, and of political consolidation. I conclude that the latter appears most directly relevant to the relative level of state capacity, while legacies and the level of development are important background conditions. International integration appears to be driven by higher capability rather than being a factor for stifling state capacity.

The third and final section suggests some ways forward from situations of low state capacity. A first path is to promote learning and incremental improvements within the state. A second option is to enhance the capacity of citizens and civil society to demand more and better solutions from the state and to be able to challenge the state when it becomes a source of problems. A third option is to redesign the political systems in such a way as to increase coherence and to clearly attribute responsibility.

Keywords

State, governance, transition countries, post-communism

Introduction

Issues of state formation and transformation are crucial for understanding current developments in the post-communist region. Initial debates on the region have focused on political and economic transitions ('democratization', 'marketization') as well as on issues of national identity, and have tended to neglect the state. Increasingly, however, the weakness of a number of states in Eastern Europe has been pointed to as a problem for these other processes.¹ Still, there are few accounts of why these states are weak or otherwise dysfunctional.

To address this gap, this paper focuses on state-formation and in particular, the development of state capacity as the *dependent* variable. Specifically, the paper suggests a framework of how to assess state capacity, and based on this considers several potential causal factors. The geographical focus is on the successor states of the Soviet Union. These are considered in the context of Eastern Europe at large, as well as by drawing some comparisons with other world regions.²

The paper proceeds in three steps. In the first step, I address the question of how best to assess the dependent variable, state capacity. In this regard, the first section also touches upon normative concepts of the state. What is to be regarded as an 'ideal' state, i.e. what are the benchmark of our assessment of state weakness in Eastern Europe? In the second section, I consider causes for state weakness. Why are some states weaker than others? What assumptions regarding explanatory factors can be found in the literature? Which mechanisms of causation can we observe? In the third and last section, I propose some steps forward from a situation of state weakness.

Looking at the State

The state has been brought (back) into the debate on transformations rather recently.³ By now, a clear perception has emerged that state weakness constitutes a problem.⁴ However, there is much less clarity on what state weakness means and how it can be measured in an analytically fruitful way. In this first section, I address three issues. Firstly, I briefly introduce the central normative views and controversies about the state and make my own stance explicit. Secondly, I describe the basic framework for analysing the state which I employ. Thirdly, I discuss several options for assessing state capacity using both qualitative and quantitative indicators.

Views of the State

Before embarking on an analysis of state weakness, we first need to stake our ground with regard to some key normative issues with regard to the role of the state. In the 1950s and 1960s, the state was

1 Thomas Carothers 2002. 'The End of the Transition Paradigm', *Journal of Democracy*, 13 (1), pp. 5-21; Stephen Holmes 1997. 'What Russia Teaches Us Now. How Weak States Threaten Freedom', *The American Prospect*, 8 (33), pp. 30-39.

2 The successor states of the Soviet Union include Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Apart from the former Soviet Union, Eastern Europe includes as sub-regions the Balkans/South Eastern Europe (in which Bulgaria and Romania are included here), and Central Eastern Europe.

3 Peter Evans, Dieter Rueschemeyer and Theda Skocpol (eds.), 1985. *Bringing the State Back In*. Cambridge: Cambridge University Press; Cynthia Roberts and Thomas Sherlock 1999. 'Bringing the Russian State Back In. Explanations of the Derailed Transition to Market Democracy', *Comparative Politics*, 31 (4), pp. 477-498; Gordon Smith (ed.), 1999. *State-Building in Russia*. Armonk: M.E. Sharpe; Venelin Ganey 2001. *Postcommunism as a Historical Episode of State-Building: A Reversed Tillyan Perspective*. Kellogg-Institute, Working Paper No. 289, November; Valerie Sperling (ed.), 2000. *Building the Russian State. Institutional Crisis and the Quest for Democratic Governance*. Boulder: Westview Press.

4 Holmes (1997); Anna Grzymala-Busse and Pauline Jones Luong 2002. 'Reconceptualizing the State: Lessons from Post-Communism', *Politics and Society*, 30 (4), pp. 529-554.

widely viewed as having far-reaching responsibilities for their societies and for promoting societal change. After considerable disappointment with states which were ‘rent-seeking’ rather than ‘developmental’ in the developing world, and ever growing state activity in many OECD-countries, an anti-statist intellectual movement emerged in the late 1970s. According to the (neo-)liberal perception, a ‘minimal’ state is the normative ideal, while a too activist state is regarded as inhibiting personal freedom and economic growth.⁵ This liberal view has also influenced much of the debate on recent transformations: by neo-liberal observers, the strong and the large state, rather than the weak state are seen as key problems inhibiting successful transformations.⁶

Critics of such a ‘minimalist’ view have pointed to the fact that many countries suffer from state weakness rather than from an overextended state which would need to be reduced. They have pointed to the costs in terms of social welfare, but also in terms of economic potential and even human rights in those countries in which the rule of law and enforcement capacities of the state are weak.⁷ Also, weak states are easily captured by powerful groups which will use whatever instrumentality remains (for example, licensing) for their own advantage, i.e. to extract rents.⁸ Furthermore, it appears that weak states in Eastern Europe are embedded in weak rather than strong societies: societies which have only very limited financial and organisational resources to replace the state as an organising structure.⁹ Thus, Eastern European societies have rather few resources to take over functions from the state than have affluent Western societies in which a downsizing of the state occurs. Finally, Eastern European societies and economies are relatively developed—they have large industrial and rapidly growing service sectors and a tradition of a state which organises the public sphere and provides at least basic public goods across its territory. Thus, the need for a functioning state is relatively high.

In this paper, I depart from a middle-of-the-road normative assumption. On the one hand, societies in the former Soviet Union and elsewhere in Eastern Europe need capable states. On the other hand, not any kind of strengthening the state is desirable. Moving backwards to a powerful but arbitrary state which is far removed from society may solve some problems such as re-establishing public order, but such an ‘old-style’ strong state will be unable to solve current challenges of economic transition and catching up with the more advanced parts of Europe.¹⁰ Thus, in the current debate the normative opposite of the ‘weak state’ should not be the ‘strong state’, but rather the ‘functional’ or ‘capable’ state, a state which enables society to adjust continuously to a changing international environment. This is especially relevant for post-Soviet countries (and other countries in Eastern Europe), in which the strong state based on authoritarian-style leadership is the long shadow of the past, and is sometimes felt to be the (only) alternative to post-communist state weakness.

5 The basic formulation of the minimal state ideal can be found in: Robert Nozick 1975. *Anarchy, State, and Utopia*. Oxford: Blackwell.

6 Andrei Shleifer and Robert Vishny (eds.), 1998. *The Grabbing Hand: Government Pathologies and Their Cures*. Cambridge: Harvard University Press. Also, Leszek Balcerowicz in a recent talk at the EUI.

7 Holmes (1997); UNDP 1997. *The Shrinking State: Governance and Sustainable Human Development*. New York: UNDP (Regional Bureau for Europe and the CIS).

8 See Joel Hellman, Geraint Jones, Daniel Kaufmann and Mark Schankerman 2000. *Measuring Governance, Corruption, and State Capture*, Policy Research Working Paper, No. 2312, World Bank; and Joel Hellman, Geraint Jones and Daniel Kaufmann 2000. ‘Seize the State, Seize the Day’. *State Capture, Corruption, and Influence in Transition*. Policy Research Working Paper, No. 2444. Both papers primarily look at company behaviour and look less into the characteristics of the state which decide whether a ‘state capture’ emerges or not.

9 Joel Migdal 1990. *Strong Societies and Weak States*. Princeton: Princeton University Press.

10 When discussing state-building in Eastern Europe, it is essential to keep in mind the fundamental changes in the understanding of the role of the state in the wider world which has occurred over the past two decades in line with changes in the economy and society. See Robert Skidelsky 1995. *The World After Communism. A Polemic for Our Times*. Basingstoke: Macmillan.

A Framework for Assessing State Weakness

Taking a step back from the normative controversies, how can we assess state weakness analytically? A helpful device for looking at state weakness is to distinguish between two aspects: the state as a provider of solutions (the provision of public goods, solving collective action problems of society) and the state as a source of problems (state failure, the costs and risks associated with state action).¹¹ Both these aspects of the state are important for analysing and addressing the problem of state weakness in transition countries. Thus, states in the region may suffer both from a low level of functionality (the state as a provider of solutions) and/or from high levels of dysfunctionality (the state as a source of problems).¹² State functionalities concern the range of public goods a state proclaims to provide to citizens. This may involve the provision of domestic and international security, of a system of law and order (including the enforcement of contracts), the provision of a public health and public education system, and, in a more ‘maximalist’ state, the provision of various forms and levels of redistribution (welfare state). Thus, the state as a provider of solutions for the collective action problems of society is the core idea with regard to state functionality.

State dysfunctionalities, in contrast, concern the negative aspects of the state. With regard to Eastern Europe, the main dysfunctionalities regarding the state are various forms of corruption and the arbitrary application of rules. Dysfunctionalities may range from petty corruption to a complete undermining of state agencies, such as the widespread involvement of state security organs in criminal activities.¹³ Furthermore, any functional role that a state assumes involves costs and risks such as the tax revenues to finance state action, the costs of state regulation, and risks related to the emergence of dysfunctionalities—such as corruption and arbitrariness.

In the normative debate, ‘minimalists’ tend to assume that the costs and risks of a larger state role tend to outweigh the benefits resulting from the public goods provided. ‘Maximalists’, in contrast, assume that it is possible for states to provide a large range of goods without falling into the trap of proliferating dysfunctionalities.¹⁴ The downsizing of the state (as a provider of solutions) which occurred particularly in the Former Soviet Union during the 1990s has generally been accompanied by an *increase* rather than a *decrease* in state dysfunctionalities—thus, simple downsizing does not appear as the optimal solution to stateness problems in the region.

At the same time, concentrating only on ‘increasing’ or ‘strengthening’ the state may not be desirable either, since what appears lacking in post-Soviet and other Eastern European countries are primarily more functional states, rather than ‘stronger’ states per se. Based on these considerations, the ‘benchmark’ is a state which provides a range of solutions at the lowest possible cost and generating as few dysfunctionalities as possible.¹⁵ Overcoming state weakness therefore needs to involve changes both with regard to providing more or better solutions, *and* with reducing costs and dysfunctionalities; i.e. it involves processes both of strengthening and of restraining the state.

11 The terminology is derived from Peter Evans 1992. ‘The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change’, in: Stephan Haggard and Robert Kaufman (eds.). *The Politics of Economic Adjustment*. Princeton: Princeton University Press, pp. 139-181.

12 Other distinctions exist in the literature, most importantly, the distinction between ‘despotic’ and ‘infrastructural’ powers as proposed by Michael Mann. See Michael Mann 1994. ‘The Autonomous Power of the State: Its Origins, Mechanisms and Results’, in: John Hall (ed.). *The State. Critical Concepts*. London: Routledge, pp. 331-385.

13 This is reportedly the case with the Georgian police, for example.

14 James Buchanan and Richard Musgrave 2000. *Public Finance and Public Choice. Two Contrasting Visions of the State*. Cambridge: The MIT Press.

15 The question of how a decision on the range of solutions to be provided by the state is made, and how this currently looks various transition countries cannot be addressed here. Certainly, policy choices in transition countries tend to be rather elite driven and do not conform to the pluralist image of society which dominates public choice theory.

Measuring Qualitatively and Quantitatively

As with other social science concepts such as ‘democracy’ or ‘development’, assessing state capacity reliably and in a replicable way is difficult and requires methodological debate as well as trial and error in empirical research. Relatively easily available observations, such as the size of revenues (as a share of GDP) or the size of a state’s bureaucracy can provide an interesting first cut; but we should be careful not to equate fiscal or administrative size with capacity. For example, South Korea extracts a lower share of its GDP than the Russian Federation, but the former is generally considered to have a far more capable state than the latter.¹⁶ Thus, there is an ongoing search for suitable indicators of state capacity and various related phenomena such as ‘(good) governance’, and ‘institutional quality’. Various international organizations have engaged in drawing up relevant indicators and in rating large sets of countries.¹⁷

So far, existing indicators tend to have two weaknesses: they tend to be biased towards (political and economic) liberalism, and they do not allow us to observe the process of how state capacity developed in a certain way and why. The bias towards liberalism implies, for example, that those countries which have a more liberal trade and currency regime are rated higher. However, as Kitschelt reminds us, withdrawing the state (liberalizing prices, exchange rates, and trade) is relatively facile while the real challenge of institutional reform is to build new institutions and to make them effective.¹⁸ Hence, being more liberal is not a good measure of state capacity. Quantitative indicators in general have limitations for analysing the causes of why some states are less capable than others: while they are useful for testing correlations, they are less well suited for analysing processes and to reveal the causal mechanisms at work.

In the remainder of this section, therefore, I suggest and discuss three sets of potentially useful indicators. The three ‘sets’ are the following: 1) qualitative indicators looking at the internal ‘functioning’ of the state machine, 2) quantitative indicators regarding regulatory and financial discrepancies, and 3) quantitative (as well as qualitative) indicators of outcomes which are more or less directly related to state activity (economic growth, internal security, educational achievement, etc.).

Qualitative indicators (1) which are based on observations of the internal functioning of a state are most pertinent for tracing the process of the development of state capacity. Such indicators may be drawn from different ‘arenas’ of the state. In my research, I have worked with indicators from the fiscal sphere.¹⁹ Indicators from the fiscal sphere are useful because they are relevant (extracting, spending, and accounting are core functions of the state), they are well suited for comparative analysis (all states extract and spend in some way), and they allow us to consider both the functional and the dysfunctional aspect of the state.

On the side of ‘the state as a provider of solutions’ we can observe the capacity to take decisions (deciding on tax policy; yearly budgeting decisions) and to implement these decisions (the development of a tax administration and actual tax collection; the management of expenditures, including conformity with initial budget decisions, as well as the capacity to react to challenges arising throughout the year). With regard to the ‘state as a source of problems’ we can observe in particular the presence and effectiveness of various forms of controls and of accountability mechanisms. In the fiscal sphere these include primarily internal financial control systems and Accounting Chambers

16 However, there may be a link at very low levels of extraction: Thus, a contemporary state which extracts less than 15 per cent of GDP in overall revenues is likely to be a weak state. Still, such low extraction rates are common for example in Latin America.

17 See www.worldbank.org/wbi/governance/govdata2001.htm for the World Bank’s assessment of governance around the world. Stephen Knack, Mark Kugler and Nick Manning 2003. ‘Second-generation governance indicators’, *International Review of Administrative Sciences*, 69, pp. 345-364.

18 Herbert Kitschelt 2001. ‘Post-Communist Economic Reform. Causal Mechanisms and Concomitant Properties’, Paper presented at the APSA Annual Meeting, San Francisco, p. 11.

19 Verena Fritz 2003. *The State of the State: A Fiscal Perspective on State Formation and Transformation in Ukraine and other Countries of the Former Soviet Union*. Thesis, (PhD). European University Institute.

which should provide citizens and their representatives with information about the use of public funds. Thus, we can observe whether there is some effective system of accounting and auditing in the management of public funds; and whether the legislative and voters are able to hold the executive accountable in the case of failures and malfunctioning.

Looking at such indicators in post-Soviet states yields a host of interesting observations. For example, in some countries, huge tax and spending arrears emerged (both in Russia and in Ukraine in the mid-1990s) indicating weak decision-making and implementation capacity. In other countries, such problems were contained much better, despite similar drops in GDP (the Baltic states). Also, some countries show very large variations in the amounts budgeted and amounts actually received by organisations, while others do not. Also, we can observe considerable variations in how various institutional branches interact in designing, adopting, executing and controlling the annual budget. In addition to cross-country comparisons, these indicators allow for comparisons over time: from the destruction of the old fiscal system to the development new systems, including the emergence of new institutions, and changing forms of cooperation or confrontation between different players in the fiscal process.

Indicators from the fiscal sphere are particularly useful for drawing some inferences with regard to the state overall since taxing and spending are core functions of any state. However, alternatively or in addition, one may also consider indicators from other spheres, such as the state's role in managing health and education or in encouraging economic development. For any of these, it may be useful to distinguish three dimensions of capacity: decision-making, implementation, and control. Looking at various 'arenas' may be used in particular for assessing potential asymmetries in state capacity—i.e. whether state capacity is rather evenly or unevenly developed across these various 'arenas'.

The advantage of such qualitative indicators is that they observe in depth the states we want to investigate. They allow us to observe, for example, why decision-making was working, or was volatile and poorly integrated, or was stalled. The disadvantage is that if done rigorously, such observations are time-consuming to collect and to be made useful for comparative assessments; thus, they do not allow us to make broad comparisons easily.²⁰

For these reasons, I suggest a second set of indicators (2) which are quantitative and hence may allow us to test for relevant correlations with regard to state capacity more easily. Possible quantitative proxy indicators for state weakness are financial and regulatory discrepancies. Such discrepancies are likely to be wider in weaker states than in more capable ones. Financial discrepancies include first of all, (high) public deficits, i.e. higher spending than the state can afford given the economic base and/or the state's ability to extract. A second quantitative indicator which Knack, Kugler, and Manning suggest is to look at 'budgetary volatility'—i.e. the year to year shifts in spending on broad spending categories (such as general administration, health, education, security, etc.).²¹ Regulatory discrepancies mean that the rules the state officially establishes are not followed *de facto*.²² Tax evasion, and hence, sizable shadow economies are one of the most common features of regulatory discrepancies; widespread corruption is another. Both tax evasion and corruption are likely to result from the dual source of over-regulation and insufficient enforcement capacity. Where evasion and corruption are high, the state poses a significant problem to its citizens, since rules are cumbersome on the one hand, while enforcement is selective, on the other.

20 There are some data-bases which provide comparative indicators for 'governance'—most importantly, the World Bank governance database. However, I find the assignment of indices to countries rather dissatisfying. A general problem is that these indices only rank (free) market-based states as capable, while strong states based in a non-market economy are ranked as weak/bad. Thus, Belarus is assigned a worse rating than Georgia. See www.worldbank.org/governance.

21 See Knack *et al.* (2003), p. 355.

22 An interesting book on regulatory discrepancies is: Jim Leitzel 2003. *The Political Economy of Rule Evasion and Policy Reform*. London: Routledge.

Thus, indicators of discrepancies include the size of the fiscal deficit, ‘budgetary volatility’ estimates of the shadow economy, and of perceived corruption. Obviously, there are a number of measurement problems: perceived corruption (such as measured by the CPI) may not truly reflect real corruption and may not measure this discrepancy in the same way across cases. Estimates of the shadow economy are uncertain and include a substantial margin of error. Even official fiscal deficits may not reflect the state of public finances in a fully comparable manner, if for example, one country resorts to wage and pension arrears (which is an implicit deficit) while another country does not. Measures of budget fulfilment have to take country specific budgeting practices into account; also, this data is not readily accessible for all countries. However, considering all four indicators together gives a relatively robust impression of where a certain country stands relative to others.

Table 1 in the appendix provides an overview of these four indicators of discrepancies. Roughly, the indicators are in line with general expectations: thus, the non-Baltic FSU countries fare the worst, the Balkan group does slightly better, and the CEE group does considerably better, in particular having—according to the estimates—much smaller shadow economies than the three other groups (despite having higher levels of taxation).²³ Regarding the deficit, the non-Baltic FSU countries have on average experienced the highest deficits, while the three Baltic countries actually have performed best on this indicator, slightly better than the CEECs on average. The Balkan countries are in the middle, but show a large variation within the group.

The two sets of indicators which I discussed so far both aim at capturing the internal workings of the state machine. Such indicators are important for assessing the internal strengths and weaknesses of a state. A third option for assessing state capacity (3) is to consider outcomes. There is a wide range of outcomes that one may consider: levels of crime (i.e. the degree to which the state provides internal security), economic growth, educational achievement, infant mortality rates, regional inequalities, etc.

However, outcome indicators are (to various degrees) indirect measures of state capacity—since they depend on state capacity as well as on many other factors (culture, social inequality, international economic developments, country-specific risks such as the presence or absence of malaria, etc.). Also, some of these indicators, such as economic growth, may be subject to substantial swings during transition. Thus, as table 2 in the appendix indicates, overall growth has been worse in the FSU and Balkan region than in the CEE countries during transition. However, in recent years, some post-Soviet countries have experienced very high growth rates. Also, several post-Yugoslav countries have experienced extreme swings from breakdown to economic recovery.

With regard to internal security, murder rates are far lower in CEE countries than in the FSU and the Balkans—so this appears to be a valid indicator for state weakness (see appendix, table 3). In general, with regard to research into state capacity, ‘performance’ indicators may be most interesting when one wants to relate a certain dimension of state capacity to outcomes. For example, one may look into whether ‘health’ or ‘education’ outcomes improve when budgetary decision-making is improved. Also, outcome indicators from various spheres may reveal some surprising strengths and weaknesses. Thus, while the Baltic states do generally well on economic outcome indicators, their crime rate is much higher than that of the CEECs (compare tables 2 and 3 in the appendix).

Depending on the research question to be addressed, various combinations of the three sets of indicators as suggested in this section may be useful. In the various possible combinations, these indicators allow us to address comparative issues with regard to state capacity and state weakness more systematically, as well as to observe how state capacity evolves over time. Also, these indicators allow for an assessment of various partial arenas of a state, which may be unevenly developed.

23 There is considerable controversy about the measurement of shadow economies. However, Schneider, whose estimates are used here, gives an assessment based on several approaches, applied to a large number of countries. See Friedrich Schneider 2002. *The Size and Development of the Shadow Economies of 22 Transition and 21 OECD Countries*. IZA Discussion Paper Series, No. 514, June.

State Capacity: Causal Factors

Beyond gaining more clarity of how to assess state capacity, there is a strong interest in explaining why some states are less capable than others and—based on such an explanation—in seeking improvements. In this second section, I will address four broad explanatory approaches. Then, in section 3, I will discuss some options for improving state capacity. Obviously, a working paper does not allow for exploring the different explanatory approaches in full depth. Rather, the intention is to provide an overview of which explanatory factors appear to be relevant and which less so, as well as to provide some ideas about how different factors may be linked.

The first explanatory approach is path-dependency or legacies. The claim is that strengths and weaknesses of the past tend to (pre)determine current state capacity.²⁴ The second explanatory approach is the assumption that increasing international integration renders the creation of capable states more difficult and less likely to be successful.²⁵ The third approach focuses on the level of development and assumes that less developed countries will generally have weaker states.²⁶ The fourth approach focuses on political factors and assumes that political consolidation is a core factor in (re-) creating state capacity.

Legacies: The Shadow of the Past

The first assumption is that legacies strongly influence the development of state capacity.²⁷ The legacies which are considered important range from the lack of experience with a rule-bound state to the tradition of an ownership state, and to a deep distrust of the state by citizens. A problem about ‘path-dependency’ arguments is that they often remain vague and do not explain how different ‘layers’ of legacies (for example, the presence/absence of a history of independent statehood, pre-Soviet legacies, Soviet legacies) interact and by which mechanisms they influence the present. Also, they rarely specify how legacies of the past interact with developments during the breakdown of communism (such as the withering away of the Communist Party which previously controlled the state) and with post-communist developments such as the far-reaching redistribution of property. Consequently, it also remains unclear whether legacies are rather deterministic or are malleable.²⁸

The considerable divergence of post-communist countries, and in particular of countries which formerly belonged to one entity (the Soviet Union and Yugoslavia), shows that *communist* legacies themselves are not determining.²⁹ The countries of each of these former composites shared a common institutional structure for several decades; thus we can assume that there are powerful *common communist* legacies for each set and that these legacies would keep the countries of each set on

24 Ken Jowitt 1992. *New World Disorder*. Berkeley: University of California Press.

25 Immanuel Wallerstein 1974. *The Modern World System: Capitalist Agriculture and the Origins of the European World Economy in the Sixteenth Century*. New York: Academic Press; Iván Berend 1996. *Central and Eastern Europe, 1944-1993: Detour from the Periphery to the Periphery*. Cambridge: Cambridge University Press; Linda Weiss (ed.), 2003. *States in the Global Economy*. Cambridge: Cambridge University Press. While Weiss argues that OECD states may be enabled rather than weakened by globalization, she indicates that peripheral states may indeed suffer if they open up to world markets before establishing strong domestic institutions. Weiss (2003: 27).

26 Gabriel Ardant 1975. ‘Financial Policy and Economic Infrastructure of Modern States and Nations’, in: C. Tilly (ed.). *The Formation of National States in Western Europe*. Princeton: Princeton University Press, pp. 164-242; Pradeep Mitra and Nicholas Stern 2003. *Tax Systems in Transition*. World Bank Policy Research Working Paper No. 2947, January.

27 Jowitt (1992); Jerzy Hausner, Bob Jessop and Klaus Nielsen (eds.), 1995. *Strategic Choice and Path-Dependency in Post-Socialism. Institutional Dynamics in the Transformation Process*. Aldershot: Edward Elgar; David Stark and László Bruszt 1998. *Postsocialist Pathways. Transforming Politics and Property in East Central Europe*. Cambridge: Cambridge University Press.

28 See Michael McFaul 2001. *Russia's Unfinished Revolution*. Ithaca: Cornell University Press, who criticizes the legacies argument.

29 Particularly in the case of the former Soviet Union we can speak of a quasi-experiment, since all states became independent at the same moment and under the same conditions. This was somewhat different in the case of the former Yugoslavia.

roughly similar paths.³⁰ However, their post-communist pathways of building state institutions and making them effective have differed considerably.

A common claim with regard to legacies is, furthermore, that communism has bred distrust in the state which has a negative impact on state-building. However, the data from the World Value Survey (1995-97 wave), regarding distrust of the state (national government, civil service) and of parliament as the key democratic institution, shows the following (see appendix, table 4): firstly, distrust of the state is not unique to the post-communist region, but is even more intense, for example, in Latin America—thus, distrust of the state is not a good indicator for a region-specific legacy. Secondly, at least based on the World Values Survey, Central Eastern Europeans on average distrust the state *even more* than do the populations in former Soviet countries or the Balkans. Since, however, states in the CEE region tend to be *more* capable than those in the FSU or in the Balkans, we have to conclude that distrust does not have a very strong or direct effect on state capacity.

A related but distinct proposition is that pre-communist rather than communist legacies matter. Again, one would need to specify whether it is some historical level of development (for example, literacy rates in 1900), or the experience of independent statehood, or the experience of a more or less efficient administration imposed by some empire, which most significantly influences post-communist state capacity. Pre-communist legacies account quite well for some broad groupings of countries in Eastern Europe: the CEE countries had a better chance for building capable states than the Central Asian countries, for example. They account less well for specific paths within a broad group such as the divergence in regime-type and in state capacity between Belarus and Ukraine, for example. Furthermore, these long lines of causation do not tell us how far ‘disadvantaged’ countries may be able to develop towards more modern, capable states; and does not explain why some countries remain trapped in ‘sub-optimal’ paths of development, while others ‘jump’ to better paths at some point.

Thus, considering only legacies, we would find it hard to explain why Belarus preserved considerable state capacity by preserving a communist system while in Ukraine, the old system was dismantled but the new system that emerged was slow to develop and had many distortions. Furthermore, by focusing on legacies alone one would find it hard to explain why very liberal ideas—such as a low flat income tax—have been adopted in a number of post-communist countries which presumably have rather strong collectivist traditions.

Although I conclude that communist and pre-communist legacies are not determining, it does not follow that they are irrelevant for understanding the development of state capacity. The common legacies shared by post-communist countries pose common challenges (for example, the conduct of privatisation, the introduction of new forms of taxation, the creation of a market-supporting, rather than market suppressing public framework, etc.).³¹ Also, it is important to recognize that communism has created a tradition of a relatively large role of the state. Because communism induced industrialization and urbanization in a number of countries, it left these societies with a far greater need for state-led organisation than had existed previously. Accordingly, post-Soviet countries on average have a fiscal size that is considerably larger than in other (lower) middle-income countries in Asia and Latin America, while in Central Eastern Europe, the fiscal size is close to Western European levels, and thus among the largest in the world. So, communist legacies have resulted in a need for the state, while legacies such as state ownership have brought about common challenges for adjustment during transition. However, the specific pathways of (re-)creating state capacity are not predetermined by legacies.

30 The puzzle of a common communist past and diverging present developments was introduced by Valerie Bunce 1999b. ‘The Political Economy of Post-Socialism’, *Slavic Review*, 58 (4), pp. 756-793.

31 See also Juliet Johnson 2001. ‘Path Contingency in Postcommunist Transformations’, *Comparative Politics*, 33 (3), pp. 253-274. Johnson considers legacies as important but not determining and specifies various interactions between current policies and legacies of the past.

International Integration and State Capacity in Peripheral Regions

A second explanatory approach holds that countries in peripheral regions are unable to develop good state capacity since international integration forces them to adopt a very limited role of the state. Most Eastern European countries fall into the category of being peripheral countries with regard to the world economy. Especially the previously extremely closed FSU countries experienced a shock opening to international trade in the early 1990s. Except for the two most populous countries, Russia and Ukraine, all of the countries in the region are (very) small economies. Most are open economies also in the sense of having few import restrictions and little revenue generated from tariffs.³² Thus, especially the FSU, but also the Balkan countries, and to some extent the CEECs share the feature of being peripheral, having been poorly prepared for integrating into international markets, and, on average, being rather poor. Based on the assumption therefore, we would expect them to converge towards a weak and incapable state.³³

However, contrary to the assumption we find that those countries which are more internationally integrated—on a number of measures such as inter-regional trade, foreign direct investment, etc.—are those that show more rather than less capable states and relatively large public sectors. The Baltic states are the most striking example. The most highly internationally integrated countries in the post-communist region—Estonia, the Czech Republic, and Hungary (all with levels of trade above 100 per cent of GDP)—show a rather large fiscal size of the state relative to GDP and are all basically functioning states according to the indicators discussed in section 1.³⁴ The non-Baltic FSU countries, in contrast, are relatively open in terms of tariff barriers, but de facto exchange much less trade and investment with countries outside the post-communist region than the Baltics or the CEECs. According to trade model estimations conducted by Babetskii *et al.*, it is the poor institutional environment (such as difficult customs procedures) which have a particularly negative effect on their trade with the wider world.³⁵

Therefore, we find a likely causation very different from the assumption formulated by the approach: poor state capacity appears to affect international integration negatively; while international openness and peripheral location do not predict weak state capacity and a small public sector. Thus, this explanatory approach does not hold—international integration of a peripheral country does not lead to weaker state capacity. This probably does not mean that international factors are entirely irrelevant, since they affect states in a number of ways (for example, through an increasing ‘export’ and ‘import’ of institutional models). However, international integration per se does not have the presumed negative effect.

Levels of Development and State Capacity

The third explanatory approach is that economically less developed countries will have smaller states relative to the size of the economy—and hence, are likely to have less capable states. The relationship between the level of development and the level of revenues is a standard assumption in the economics and economic history literatures.³⁶ The data from Eastern Europe conforms to the basic expectation. In terms of broad groups, the FSU countries are on average the poorest and by 2000 had average revenues of 28.0 per cent of GDP, the Balkans are somewhat wealthier and have average revenues of 37.2 per cent, and the CEE countries are the relatively richest group and collect an average of 41.1 per

32 Exceptions are Belarus, Uzbekistan, and Turkmenistan which operate with non-tariff import restrictions (licenses). See EBRD, Transition Report 1999, Table 2.1. Among all 8 indicators for ‘progress in transition’, this table shows that the most liberalised area across all cases is the field of ‘Trade and Foreign Exchange System’.

33 The general idea that small peripheral economies are ‘condemned’ to have weak states is based on Wallerstein (1974).

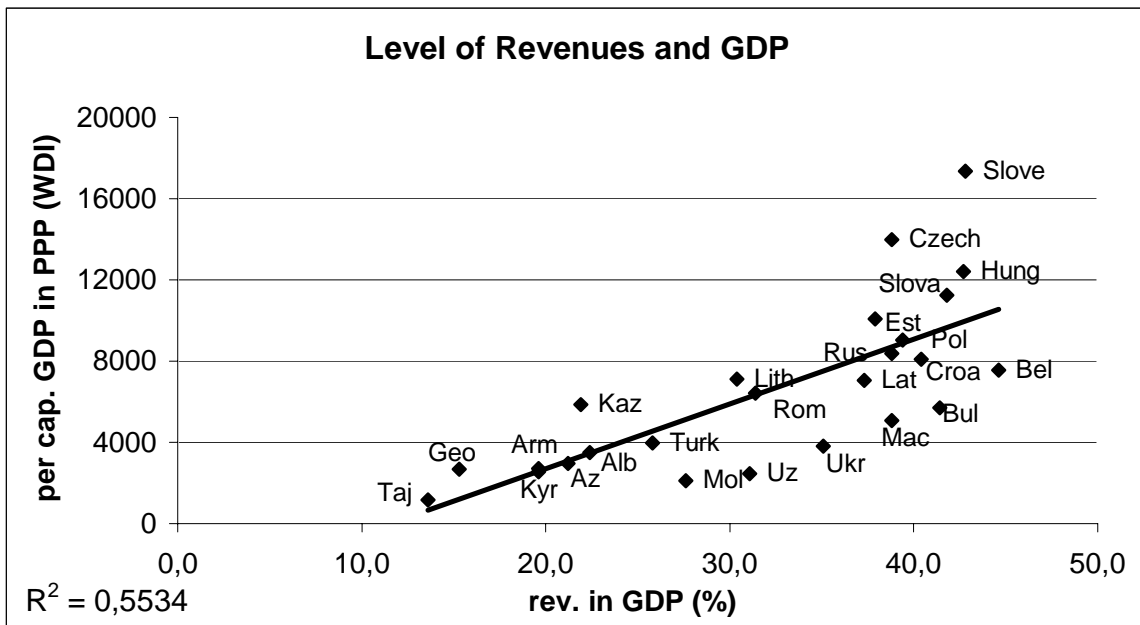
34 Belarus is rated as having an illiberal trade regime by EBRD; however, that is not true for its trade with Russia; Estonia had a share of trade in GDP of 146.4 per cent in 2000 and government expenditures of 36.7 per cent; Belarus had a share of trade/GDP of 116.4 in 2000 and government expenditures of 44.3 per cent.

35 Ian Babetskii, Oxana Babetskaia-Kukharchuk and Martin Raiser 2003. *How Deep is Your Trade?*. EBRD Working Paper No. 83, November.

36 Ardant in Tilly, esp. pp. 174ff.

cent of GDP in revenues (see table 5, appendix). The simple correlation, presented in the graph below shows that there is a fairly close fit between levels of GDP (especially when measured in PPP), and the share of fiscal revenues in GDP.

Graph 1: Per Capita Income and the Fiscal Size of the State, FSU, Balkan, and CEE countries



Sources: World Development Indicators (2000); EBRD, Transition Report (various years).

There are a number of likely reasons behind the relationship: for example, poorer countries in Eastern Europe and elsewhere tend to be more agricultural and in general, agriculture is taxed less than industrial and service sectors of an economy are. Poorer countries are also likely to have larger informal sectors which remain untaxed thus lowering overall revenues.

Still, the relationship is far from perfect: for example, while Bulgaria is in a similar per-capita income range as Kazakhstan, its revenues relative to GDP are about twice as high. Also, at about 40 to 45 per cent of revenues there is a cut-off point, so revenues do not rise beyond this level even for much higher incomes (for example, in Slovenia which has by far the highest income in Eastern Europe).

The key question is how strongly lower revenues affect potential and actual state capacity. As the graph shows, countries generally perceived to be at the lower end of state capacity—according to the indicators discussed in section 1—also have the lowest levels of per capita GDP and of revenues (Tajikistan, Georgia, Kyrgyzstan). However, Russia and Ukraine have revenue levels similar to those of the Baltic states—but according to all the indicators discussed in section 1, state capacity is weaker in the former than in the latter. Also, relative to other world regions with similar income levels, such as Latin America or East and South Asia, the average size of revenues across Eastern Europe is still higher.³⁷ Thus, by inter-regional comparison, revenue levels in Eastern Europe should allow for considerable state capacity.

This suggests that on the one hand, having a lower level of development (in terms of GDP per capita) reduces the potential for creating a capable state to some extent. However, at any given level of GDP there is considerable scope for variation: both with regard to how much is being extracted and with regard to how efficiently and effectively revenues are being used. Thus, especially among middle-income countries with

³⁷ See World Development Indicators, 2001, table 1.5.

revenues around 30 per cent of GDP there appears to be considerable potential for building capable states especially if we consider the comparison with countries in other regions of the world.

To put it differently, this third approach clearly has some explanatory merit. However, while low levels of GDP and associated low levels of revenue may be a serious constraint on state capacity in the most underdeveloped parts of the former Soviet Union (primarily, Central Asia and the Caucasus), the level of development and the level of revenue being extracted does not appear as an obvious constraint on state capacity in most other Eastern European countries. While these relationships would require further specification and testing, it appears likely that countries such as Ukraine and Russia currently have less capable states than would be expected given their levels of development.

Political Consolidation and State Capacity

The fourth explanatory approach concerns the influence of political variables on the development of state capacity. Political variables are more ‘proximate’ causes than, for example, legacies or the level of development.³⁸ This implies that they should be well suited to explain the more fine-grained differences between countries with similar preconditions. Political factors may also be especially relevant during periods of change—after an old order has been dismantled, agency is crucial for what is being re-build. Therefore, political factors are assumed to have an impact on the development of state capacity in the post-communist period. The political variables which I consider here are regime consolidation combined with regime type and with the relative strength of ‘opaque’ groups.³⁹

A distinct feature of post-communist transition is the multiplicity of change processes: the old regime as well as the old economic order was discarded and in a number of cases the previous state unit also disintegrated (Czechoslovakia, the Soviet Union, Yugoslavia). This multiplicity of changes posed a huge challenge for state capacity. In all those countries which embarked on economic transition, the state had to change from being an owner to being a tax state, and from commanding to regulating economic activity.⁴⁰ Also, wealth was re-distributed on a massive scale.

The assumption with regard to political factors is therefore as follows: countries which (re-) established and consolidated a regime (either democratic or authoritarian) early in the transition process were better able to maintain or re-create state capacity. An important causal link for this is that in countries achieving early regime consolidation there was less room for the development of powerful ‘opaque’ groups. In countries in which an early consolidation was not achieved, in contrast, institution-building remained more contested, and ‘opaque’ groups became powerful in the absence of a coherent political regime.

‘Opaque’ groups in post-communist countries may include patronage networks, uniting former *Komsomol* and former communist party members, or regional and ‘oligarchic’ networks. These opaque networks will generally represent narrow rather than broad societal interests. While opaque networks are important in many societies—whether it is the ‘oil interests’ in the US or ‘the mafia’ in Italy—they pose a more serious problem the less they are *balanced* by a well-developed structure of ‘visible’ groups. ‘Visible’ groups can be made public participants in political bargains. Opaque groups are more likely to be involved in backroom deals—and hence more likely to engage in seeking some kinds of rents from the state, rather than participating in building capable state institutions.

38 On the relationship between ‘distal’ and more ‘proximate’ causes see Bunce (1999: 790). The terminology of ‘distal’ and ‘proximal’ is primarily used in theories of evolution.

39 John Higley, Oksan Bayulgen and Julie Georg 2001. ‘Political Elite Integration and Differentiation in Russia’, in: Anton Steen and Vladimir Gel’man (eds.). *Elites and Democratic Development in Russia*. Oslo: Faculty of Social Sciences, University of Oslo, pp. 4-21

40 The main exceptions are Belarus, Uzbekistan, and Turkmenistan which so far have not embarked on a fundamental change of their economic systems. On the concepts of an owner vs. a tax state see Joseph Schumpeter 1991. ‘The Crisis of the Tax State’, in: Richard Swedberg (ed.). *The Economics and Sociology of Capitalism*. Princeton: Princeton University Press, pp. 99-140.

In much of the transition literature, the *implicit* assumption is that there is a government which governs effectively and which is based either on a democratic or an authoritarian regime. If there is a regime change, furthermore, it will be the transition from one regime to another regime. The endpoint of a transition is a new, consolidated regime.⁴¹ However, in the FSU and Balkan region we find a large number of cases with indeterminate transitions—Ukraine, Moldova, Albania, Armenia, Georgia, Romania, Macedonia, Bosnia, Russia, Yugoslavia/Serbia, Kyrgyzstan, Tajikistan, Azerbaijan, and Kazakhstan—all of which are classified as non-consolidated regimes by Freedom House.⁴² As Thomas Carothers and others have pointed out, uncertain regimes pose problems for effective governance.⁴³

Non-consolidated regimes are marked by either or both of two problems: relative insecurity of rule, and the absence of the systemic strengths of either a democracy or an autocracy.⁴⁴ Where there is relative insecurity of rule, the survival in power requires continuously more attention than finding solutions for societal problems; potential support groups have to be ‘bought’ and thus effective control mechanisms have to be undermined, vetoes on decisions and obstruction of implementation are used as weapons in the power struggle. Also, as ‘opaque’ groups grow stronger, the state becomes more distorted (or ‘captured’ in the terminology of Kaufmann *et al.*).⁴⁵ Thus, the dysfunctional aspects of the state grow—such as the selective enforcement of taxation and regulations or the selective distribution of licenses (with the well-connected enjoying various privileges—which other groups directly or indirectly have to pay for).

Non-consolidated regimes are more likely to experience struggles for power which are not bound by rules—i.e. they are likely to have instable and conflictive elite constellations. For example, in Ukraine there has been a continuous tug-of-war between the president and the opposition since late 2000 in which each deeply accuses the other side. Georgia has recently seen its second toppling of its leadership during the post-independence period. In Serbia, destructive hyper-nationalism has been followed by a prolonged period of a highly uncertain democratic regime. All three countries have powerful ‘opaque’ groups and all have rather incapable states if we consider the indicators as developed in section 1. Bulgaria, in contrast, which has enjoyed a more secure if not fully consolidated democratic regime has actually made progress in developing state capacity (for example, corruption has been slowly reduced—according to CPI ratings and other sources).

The absence of systemic strengths of a democracy or autocracy affects the functioning of the state negatively for various reasons. Firstly, a typical feature of incomplete democracies are (informal) limitations on press freedom and on freedom to express criticism in general. Thus, a major advantage of democratic systems—i.e. that they have strong checks against state dysfunctionalities—is lost. A second basic advantage of democracies is that the political bargaining process can be brought into the open—including the involvement of open, visible groups and stakeholders. Further key advantages of democracy are the presence of checks and balances—reducing the likelihood of destructive or highly erratic decision-making—which is a considerable risk in authoritarian regimes, and the presence of public scrutiny over implementation. However, these strengths of a democratic regime are lost in

41 If made explicit, most transition theorists would probably agree that this is over-simplistic. However, the point is that the question of incomplete transitions and especially their effects on the functionality of government is not explicitly addressed in transition theory.

42 Freedom House, 2002. *Nations in Transit, 2002: Civil Society, Democracy, and Markets in East Central Europe and the Newly Independent States*. New Brunswick, N.J.: Transaction. Of course, one may dispute the ratings given by FH, but they do reflect basic agreement on most cases.

43 Carothers (2002).

44 It is important to distinguish between state capacity and ‘good governance’. ‘Good governance’ by most definitions includes democracy as a key aspect. State capacity refers to whether the state is effective (i.e. ‘effective governance’) and solves the collective action problems of societies (such as prosperity and the provision of a basic safety net), but without predefining who is involved in the political process—i.e. whether it is democratic or not.

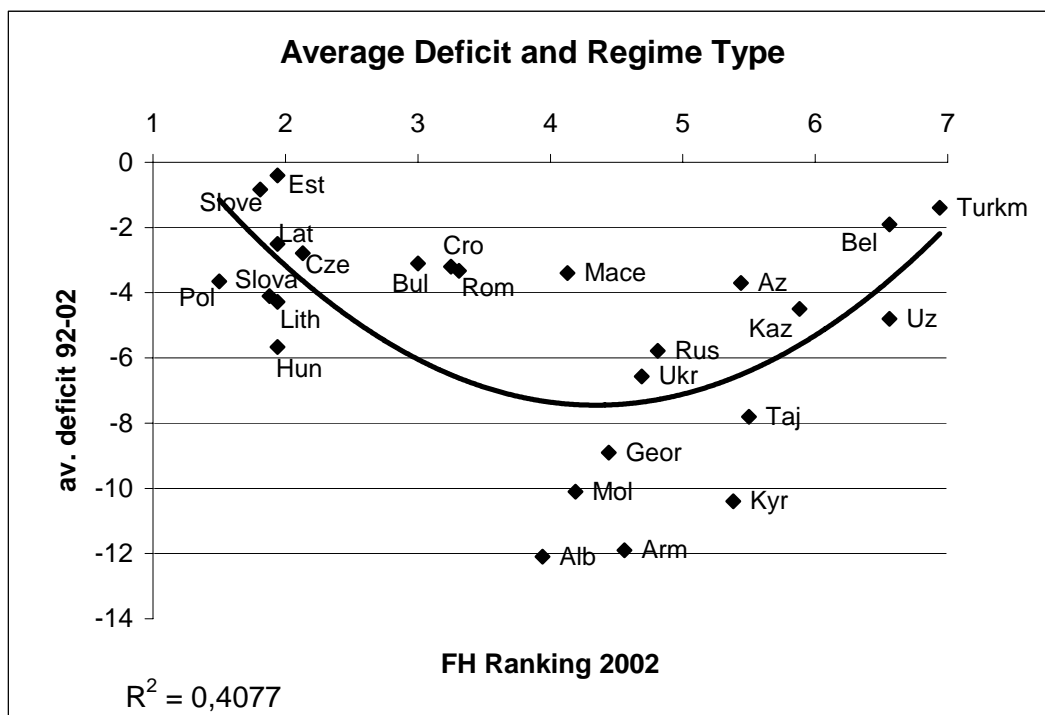
45 Hellmann *et al.* (2000).

many uncertain democracies in which ‘visible’ groups, such as parties and associations are weak and dispersed; or are subverted by ‘opaque’ groups which simply use them as fronts (such as Ukrainian ‘oligarchs’ hiding behind ‘social democratic’, ‘labour’, and ‘green’ party labels). Likewise, checks and balances and public scrutiny—as exercised by a free press—are often compromised in hybrid regimes.

An advantage of the consolidated authoritarian regimes such as Belarus and Uzbekistan has been that they did not embark on economic transition—thus avoiding the cost of restructuring the economy and with it of the state. Thus, the economic downturn they experienced in the 1990s was milder than in those countries undertaking all-out transition. Also, a consolidated authoritarian regime has advantages with regard to decision-making capacity (i.e. one of the three dimensions of state capacity) since there are fewer veto players. If we think of an authoritarian leader in terms of a ‘stationary bandit’ (Mancur Olson), this will allow for the development of greater state capacity than a situation of ‘roving bandits’, i.e. of (competing) powerful opaque groups which have developed in the countries with unconsolidated regimes.⁴⁶

Empirically, the relationship between regime consolidation and state capacity, measured in terms of financial and regulatory discrepancies as discussed in section 1, appears to be quite strong if we look at the two graphs presented below.

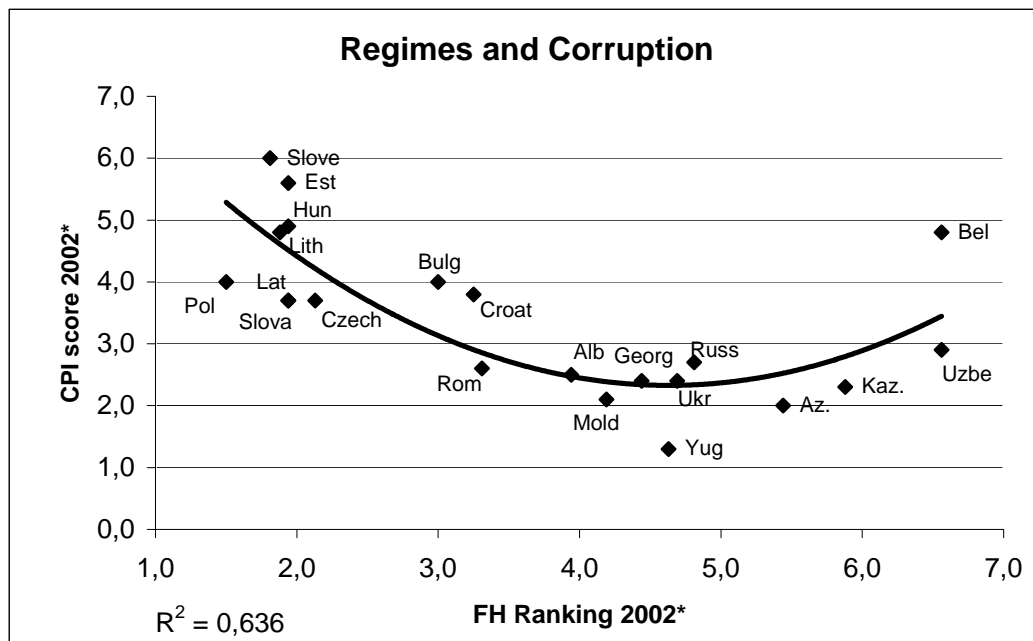
Graph 2: Relationship between Freedom-House Rankings And Average Fiscal Deficits⁴⁷



Sources: Freedom House, Nations in Transit (2002); EBRD, Transition Report (various years). Note: for Kyrgyzstan and Uzbekistan, the average fiscal deficit refers to 1993-2002; for Estonia and Latvia to 1994-2002.

46 Mancur Olson 1997. *Capitalism, Socialism, and Dictatorship: Outgrowing Communist and Capitalist Dictatorships*. Manuscript, College Park.

47 The FH ratings range from 1—fully democratic—to 7—fully autocratic. One may dispute whether the FH ratings can be treated as ordinal variables—i.e. whether the distance between a rating of 1 and 2 is the same as between 2 and 3. If the distances are not equal, the trend-line would look more jagged and uneven, but the basic shape would remain the same. The deficit is the average over the period 1992 to 2002.

Graph 3: Relationship between Regime Consolidation and Corruption⁴⁸

Sources: Corruption Perceptions Index (CPI), Transparency International (2002); Freedom House, Nations in Transit (2002); Note: No CPI data for Tajikistan, Turkmenistan, Georgia and Kyrgyzstan.

As the two graphs show, the countries which did best with regard to keeping the fiscal deficit and corruption in check are consolidated democracies: Estonia, Slovenia, and Latvia (all of which are also small countries). However, countries with a consolidated authoritarian system have also done relatively well with regard to one or both of these indirect measures of state capacity (in particular Belarus). Those in the middle of the spectrum have fared worst—with the former Yugoslavia, Albania, Azerbaijan, Kazakhstan, Moldova, Russia, and Ukraine showing the worst levels of corruption among the countries which were rated.⁴⁹ Thus, the empirical assessment supports the argument that an unconsolidated regime and the associated rise of ‘opaque’ groups have a negative impact on state capacity.

Summarizing the Four Approaches

Let me summarise the findings regarding the four assumptions on explanatory factors for state capacity. The four factors I considered are: a) communist legacies, b) international integration (of peripheral regions); c) levels of economic development; and d) the degree of political regime consolidation in combination with the relative strength of ‘opaque’ groups.

First, I have considered the influence of legacies. Despite a common history of several decades, post-communist states have subsequently shown considerable divergence in their development (particularly striking in the cases of the disintegrated Soviet Union and the former Yugoslavia). Also, we saw that distrust in the state—which is assumed as a mechanism by which communist legacies affect post-communist state-building negatively—is in effect stronger in some of the more capable states. Thus, available data does not corroborate a strong impact of communist legacies. Legacies influence a number of background conditions—certain reform challenges to be addressed, but also a

⁴⁸ The Corruption Perceptions Index ranges from 10—completely free of corruption to 1—completely corrupt.

⁴⁹ The fit of the U-shaped trend-line is somewhat looser for the average deficit than for corruption—some of the consolidated democracies, Hungary and Poland in particular, have had relatively large deficits; but especially Hungary does well with regard to corruption. On the other hand, several Balkan countries show limited deficits, but have strong problems with corruption.

relatively strong need for the state as a consequence of communist-era modernization—but they do not determine the development of post-communist state capacity in a particular country.

Secondly, higher international integration—in contrast to the initial assumption—was shown to be positively rather than negatively correlated with state capacity. Thus, having a more capable state appears to promote international integration, rather than international integration exercising a downward pressure on state capacity. Thus, since the dominant direction of causation appears to be from state capacity to international integration, this approach is discarded as a relevant explanatory factor.

With regard to the levels of economic development, there is a relationship to the fiscal size of the state—poorer countries tend to have a smaller share of fiscal revenues in GDP than richer countries. However, there are many cases which deviate considerably. Thus, the level of economic development appears to affect state capacities to some degree—but states may still use available resources with varying effectiveness.

The fourth explanatory approach appears relevant both in terms of the argument and based on some empirical evidence. Incomplete transitions, elite conflicts in which existing rules are routinely undermined, and strong ‘opaque’ groups are detrimental to the development of capable states, while early regime consolidation is beneficial to the re-building of state capacity even in the face of multiple challenges.

There are likely to be some linkages between these individual factors. The level of development may be thought of in combination with legacies to form a set of structural or ‘background’ conditions. As Kitschelt has argued, one way by which these background conditions are translated into the current probability of building a capable state is precisely through their influence on elite constellations and hence the probability of regime consolidation.⁵⁰ However, political consolidation will also be influenced by a number of other factors (for example, chance elements such as the emergence of a key leader; external support for a certain set of elites, etc.).

To give an example, Russia’s level of development and historical legacies make it more likely to develop a state that is more dysfunctional and less capable than that of Hungary. However, those general factors do not determine the emergence of two rather different leaders within Russia, Yeltsin and Putin, who have had very different effects on state capacity; nor could they predict the distribution of federal powers, or the boom and—partial—bust of the oligarchs. Thus, regime consolidation and the power of opaque groups are at least to some extent independent factors which cannot be entirely subsumed under structural conditions.

To summarize, I discarded one explanatory approach (international integration) and outlined some likely linkages between the three others. The line of argument taken here—that political constellations are important and that they are at least partially independent of structural preconditions—implies that there is a degree of malleability. Post-communist countries may do better or worse in building capable states. Therefore, in the next section I address some ideas of how the incapacity and the dysfunctionality of states in the region may be reduced.

Overcoming State Weakness

Given the assessment of state capacity and its causes, the third important issue is what can be done to address state weakness where it is being diagnosed. As I explicated in section 1, one needs to distinguish between state functionality and dysfunctionality when addressing the overall issue of state weakness. Most weak states in Eastern Europe will be marked by a mixture of insufficient functionality and unacceptably high dysfunctionality. At the same time, with the possible exception of Bosnia, there is still a basis of stateness—which clearly sets Eastern Europe apart from ‘failed states’ in parts of Africa.⁵¹

50 Kitschelt (2001).

51 William Zartman (ed.), 1995. *Collapsed States. The Disintegration and Restoration of Legitimate Authority*. London: Lynne Rienner.

There are three potential ways for enhancing state capacity: (1) building up professionalism and bringing institutions in tune with the new market economy, (2) increasing the voice of citizens and civil society, and (3) redesigning the political system. These options may be pursued by reformers within these countries, both from the political and societal realm, as well as by external supporters of reforms. This includes the EU which has an interest in increasing the state capacity among its new neighbours, as well as more philanthropic supporters such as the various foundations which work in the region.

The first way of addressing state capacity primarily involves enhancing the functional aspects of the state, but it can also involve, for example, strengthening mechanisms which help to prevent corruption (such as internal controls). This first strategy may work in so far as weak state capacity is caused by a relatively low level of development, combined with a need to adjust state capacity due to transition. The EU twinning programs would be a prime example of such a strategy. Non-accession countries have at times demanded to be included more in such cooperation—thus, reformers in such countries regard ‘professionalisation’ via twinning as a useful instrument. At the same time, this strategy has its limits where corruption is pervasive and especially where it is coupled with unfair political practices—such as strong political ‘abuses’ of the administration, i.e. where state dysfunctionality is extremely high.

The second strategy does not aim at the state itself and its component parts, but rather at society. In a situation of high state dysfunctionality, a foremost way of strengthening and improving the state is by strengthening society. As I discussed in section 2, ‘opaque groups’ are a key driving force of state dysfunctionality. Society needs to acquire more weight in order to balance the overwhelming influence of such opaque groups. The goal is to enable citizens and civil society to hold the state and its component parts accountable—from the local housing administration to government ministers—and to ensure that the interests of society at large rather than that of narrow interest groups are served by the state. Strengthening accountability means that citizens learn to demand good services from the state and that they tolerate less misuse of the state by political elites for private gain. Becoming involved with the state also means that citizens learn what is realistic for the state to provide. Surveys in Eastern Europe show that citizens often hold a rather paradoxical opinion—on the one hand expecting the state to play a large role, but on the other hand deeply distrusting the state. Strengthening society therefore also involves changing perceptions of the state and fostering societal responsibility for the state’s functioning. Certainly, this is easier suggested than accomplished. Too much external involvement—through heavy support for NGOs—can create perceptions that civil society is really a game of outsiders. At the same time the burden of dealing with the strains of transition is particularly heavy for citizens in weak states—so there is little extra room for public engagement. However, budding middle classes, small business associations, professional and charity groups are slowly becoming more established even in the more difficult countries of Eastern Europe. Recent examples of a growing demand for a better state are the protests which ousted the regimes in Serbia in the fall of 2000 and in Georgia in the winter of 2003.

The third way is to redesign the political system in order to increase coherence and to clearly attribute responsibility. A number of the weak and dysfunctional post-Soviet states have a dual executive. Particularly in those countries in which party systems have remained weak, this should be changed towards a more US-presidential type system by eliminating the post of prime-minister. This would remove a source of potential conflict and competition, and, more importantly, it would clearly attribute responsibility to the president. The president would have to assume responsibility for key policy directions and decisions rather than having a hybrid role of being ‘above politics’, but at the same time being the ultimate arbiter behind the scenes. In countries in which the party system looks more promising one may change to a more parliamentary system, in which then a prime minister would clearly be in charge.

With regard to the legislature, electoral and party funding rules should be such as to give strong incentives for parties to unite into larger units, to generate clear majorities, and to discourage candidates from running as independents. Again, the idea is to promote a clearer allocation of responsibility—as a precondition for developing accountability relationships. Larger, more coherent parties allow voters better to judge responsibility for past and current decision making.

Furthermore, with regard to policy making, rule-making by individuals (the president, individual ministers) should be discouraged, and rule-making by a collective body (the cabinet, the parliament) should be encouraged, for most issues with open vote casting. This can contribute to helping encompassing rather than narrow interests to prevail. For example, oligarchic groups may enjoy good access to a minister or even the president, but they may find it harder to bribe a significant number of parliamentary deputies, especially if these deputies know that their voting behaviour can be monitored publicly. Furthermore, there should be clear rules on societal participation in rule-making (legislation on lobbying, on private contributions to parties). It is important that influence can be exercised openly, in order to reduce the need for informal influence-taking which again tends to privilege narrow interests.

Certainly, re-designing the rules of the political game is difficult, particularly at the constitutional level. Once a constitution has been established, most actors will be reluctant to change it. However, constitutional reform is being discussed or has been undertaken in several states of the region—witness the recent change in Moldova, and the on-going discussion on constitutional changes in Ukraine. So there is room to advocate certain changes which promise to improve state capacity (and at the same time to prevent those changes which primarily serve narrow interest groups—as is currently the risk in Ukraine). Importantly, when undertaking any of the suggested changes, it is essential to analyse potential unintended negative consequences thoroughly. In a situation of weak stateness and strong opaque groups, rules have to be designed very carefully in order to ensure that they will bring real improvement and will not easily be subverted.

Improving state capacity appears possible if opportunities are well used. It is also urgent: people in the weak states of Eastern Europe, and particularly in the former Soviet Union, are tired of the perceived disorder their societies have experienced for over a decade. When states are continuously weak, people's desire for and acceptance of strong-arm solutions is likely to grow—as can be witnessed with regard to Putin and his style of government in Russia. Thus, it matters to develop and to promote strategies of strengthening the state in a ways which are compatible with a democratic regime, and to foster modern, functional states which enable societies to emerge from the long crisis of transition and to catch up with the wider world.

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Appendix

Table 1: Regulatory and Financial Discrepancies

	Size of the shadow economy 2000/2001	Corruption perception index 2001	Fiscal deficit av. 1994-2001	Budgetary volatility (1) av. 1996-2000
Balkan				
Albania*	na	2.5	-10.9	0.2255
Bosnia-Herzegovina***	na	na	-5.5	na
Bulgaria	36.4	3.9	-3.0	0.2855
Croatia	32.4	3.9	-2.9	0.0995
FR Yugoslavia***	na	na	-4.0	
FYR Macedonia	45.1	na	-1.4	na
Romania	33.4	2.8	-3.6	0.1147
<i>Average</i>	<i>36.8</i>	<i>3.3</i>	<i>-4.5</i>	<i>0.1813</i>
FSU, non-Baltic				
Armenia**	45.3	2.5	-7.5	na
Azerbaijan	60.1	2	-3.9	0.1491
Belarus*	47.1	4.8	-1.5	0.1367
Georgia*	66.1	2.4	-7.0	0.2328
Kazakhstan*	42.2	2.3	-5.0	0.1816
Kyrgyzstan	39.4	na	-13.4	na
Moldova	44.1	3.1	-5.9	0.1374
Russian Federation	45.1	2.3	-5.5	0.2027
Tajikistan	na	na	-4.4	na
Turkmenistan	na	na	-0.8	na
Ukraine	51.2	2.1	-3.7	na
Uzbekistan	33.4	2.9	-3.2	na
<i>Average</i>	<i>47.4</i>	<i>2.7</i>	<i>-5.15</i>	<i>0.1734</i>
FSU, Baltic				
Estonia	39.1	5.6	-0.9	0.0965
Latvia	39.6	3.4	-3.1	0.0716
Lithuania	29.4	4.8	-4.0	0.0872
<i>average</i>	<i>36.0</i>	<i>4.6</i>	<i>-2.7</i>	<i>0.0851</i>
CEECs				
Czech Republic	18.4	3.9	-2.7	0.0672
Hungary	24.4	5.3	-5.0	0.1042
Poland	27.4	4.1	-3.5	0.0546
Slovak Republic	18.3	3.7	-3.0	0.1117
Slovenia	26.7	5.2	-0.9	0.0348
<i>average</i>	<i>23.0</i>	<i>4.4</i>	<i>-3.0</i>	<i>0.0745</i>

* CPI from 2002; ** CPI from 2000

***: deficit data for 1995-2001

The data on budgetary volatility is taken from Stephen Knack and Mark Kugler, Constructing an Index of Objective Indicators of Good Governance, World Bank, Oct. 2002;

<http://www1.worldbank.org/publicsector/anticorrupt/FlagshipCourse2003/SecondGenerationIndicators.pdf>

Table 2: Growth 1990 to 2002

Country/Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	ø 1990-2002
FSU, non-Baltic														
Armenia	-7.4	-11.7	-41.8	-8.8	5.4	6.9	5.9	3.3	7.3	3.3	6.0	9.6	8.0	-1.1
Azerbaijan	-11.7	-0.7	-22.6	-23.1	-19.7	-11.8	1.3	5.8	10.0	7.4	11.1	9.9	8.8	-2.7
Belarus	-3.0	-1.2	-9.6	-7.6	-12.6	-10.4	2.8	11.4	8.4	3.4	5.8	4.1	3.0	-0.4
Georgia	-12.4	-20.6	-44.8	-25.4	-11.4	2.4	10.5	10.8	2.9	3.0	2.0	4.5	3.5	-5.8
Kazakhstan	-0.4	-11.0	-5.3	-9.3	-12.6	-8.2	0.5	1.7	-1.9	2.7	9.8	13.2	7.6	-1.0
Kyrgyzstan	3.0	-5.0	-19.0	-16.0	-20.1	-5.4	7.1	9.9	2.1	3.7	5.1	5.3	2.0	-2.1
Moldova	-2.4	-17.5	-29.1	-1.2	-31.2	-1.4	-5.9	1.6	-6.5	-3.4	2.1	6.1	3.5	-6.6
Russia	0.0	-5.5	-18.6	-13.0	-13.5	-4.1	-3.4	0.9	-4.9	5.4	8.3	4.9	4.1	-3.0
Tajikistan	-1.6	-7.1	-29.0	-11.0	-18.9	-12.5	-4.4	1.7	5.3	3.7	8.3	10.3	7.0	-3.7
Turkmenistan	2.0	-4.7	-5.3	-10.0	-17.3	-7.2	-6.7	-11.3	5.0	16.0	17.6	12.0	13.5	0.3
Ukraine	-4.0	-10.6	-9.7	-14.2	-22.9	-12.2	-10.0	-3.2	-1.9	-0.2	5.9	9.1	4.5	-5.3
Uzbekistan	1.6	-0.5	-11.1	-2.3	-4.2	-0.9	1.6	2.5	4.4	4.1	4.0	4.5	2.5	0.5
FSU, Baltic														
Estonia	-6.5	-13.6	-14.2	-8.8	-2.0	4.3	3.9	10.6	4.7	0.6	7.1	5.0	4.0	-0.4
Latvia	2.9	-10.4	-34.9	-14.9	2.2	-0.9	3.7	8.4	4.8	2.8	6.8	7.7	4.0	-1.4
Lithuania	-5.0	-5.7	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-3.9	3.8	5.9	5.2	-2.0
CEE countries														
Bulgaria	-9.1	-11.7	-7.3	-1.5	1.8	2.9	-10.1	-7.0	3.5	2.4	5.4	4.0	4.0	-1.7
Czech Rep	-1.2	-11.5	-3.3	0.1	2.2	5.9	4.8	-1.0	-2.2	-0.2	3.3	3.3	2.5	0.2
Hungary	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.5	5.2	3.8	4.0	1.0
Poland	-11.6	-7.0	2.6	3.8	5.2	7.0	6.0	6.8	4.8	4.1	4.0	1.0	1.0	2.1
Romania	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.9	-5.4	-3.2	1.8	5.3	3.5	-1.2
Slovakia	-2.5	-14.6	-6.5	-3.7	4.9	6.7	6.2	6.2	4.4	1.9	2.2	3.3	3.5	0.9
Slovenia	-4.7	-8.9	-5.5	2.8	5.3	4.1	3.5	4.6	3.8	4.9	4.6	3.0	2.7	1.6
Balkan Countries														
Bosnia-Herzegovina	-23.2	-12.1	-30.0	-40.0	-40.0	20.8	86.0	37.0	9.9	10.6	4.5	2.3	3.0	2.2
Croatia	-7.1	-21.1	-11.7	-8.0	5.9	6.8	6.0	6.5	2.5	-0.9	2.9	3.8	3.5	-0.8
FR Yugoslavia	-7.9	-11.6	-27.6	-30.8	2.5	6.1	7.8	10.1	1.9	-18.0	5.0	5.5	3.0	-4.2
FYR Macedonia	-9.9	-7.0	-8.0	-9.1	-1.8	-1.2	1.2	1.4	3.4	4.3	4.6	-4.1	2.0	-1.9

Source: EBRD

Table 3: Crime Statistics

	Murder per 100000 inhabitants
Balkan	
Albania	12.39
Bosnia-Herzegovina	na
Bulgaria	5.27
Croatia	5.81
FR Yugoslavia	na
FYR Macedonia	6.53
Romania	7.44
<i>average</i>	<i>7.5</i>
FSU, non-Baltic	
Armenia	3.33
Azerbaijan	3.84
Belarus	11.86
Georgia	na
Kazakhstan	13.67
Kyrgystan	11.19
Moldova	11.31
Russian Federation	22.43
Tajikistan	na
Turkmenistan	na
Ukraine	8.95
Uzbekistan	4.41
<i>average</i>	<i>10.1</i>
Baltic countries	
Estonia	12.09
Latvia	9.04
Lithuania	10.83
<i>average</i>	<i>10.7</i>
CEECs	
Czech Republic	2.27
Hungary	4.01
Poland	3.5
Slovak Republic	2.35
Slovenia	4.07
<i>average</i>	<i>3.24</i>
For comparison:	
USA	5.61
Greece	2.75

Source: Interpol

Table 4: Trust in government, Civil Service and Parliament (in %)

Non-Baltic FSU				
	great deal	quite	not very	none
national govern't	12	36.9	30.4	20.7
civil service	7	37.1	37.5	18.4
parliament	7.4	32.7	35.5	24.3
Baltic Countries				
	great deal	quite	not very	none
national govern't	3.7	28.8	39.8	27.7
civil service	3.1	40.8	47.7	8.4
parliament	10.5	35.9	39.7	13.9
Balkan countries				
	great deal	quite	not very	none
national govern't	13.2	32.8	34	20.1
civil service	8	31.3	42.4	18.3
parliament	8.7	29.3	39.7	22.3
Latin America				
	great deal	quite	not very	none
national govern't	11.5	28.7	34.7	25.1
civil service	7.9	28.5	37.2	26.4
parliament	7.7	23.9	35	33.4
CEE (incl. Eastern Germany)				
	great deal	quite	not very	none
national govern't	6.2	29	40.7	24.1
civil service	6.3	30.7	47.7	15.3
parliament	7	31.7	42.9	18.3

Non-Baltic FSU include Belarus, Ukraine, Russia, Moldova, Georgia, Armenia, Azerbaijan (no data for Central Asia available); Baltic countries: Estonia, Latvia, Lithuania; Balkan countries: Serbia, Montenegro, Macedonia, Croatia, Bosnia-Herzegovina; Latin American countries: Mexico, Argentina, Puerto Rico, Brazil, Chile, Peru, Venezuela, Uruguay, Dominican Republic, Colombia; CEE countries: Hungary, Poland, Czech Republic, East Germany, Slovenia, Bulgaria, Romania, Slovakia.

Table 5: Revenues in % of GDP, 2000

	revenues in % of GDP 2000
Balkan	
Albania	22.4
Bosnia-Herzegovina	47.2
Bulgaria	41.4
Croatia	40.4
FR Yugoslavia	38.7
FYR Macedonia	38.8
Romania	31.4
<i>average</i>	37.2
FSU, non-Baltic	
Armenia	19.6
Azerbaijan	21.2
Belarus	44.6
Georgia	15.3
Kazakhstan	21.9
Kyrgyzstan	19.6
Moldova	27.6
Russian Federation	38.8
Tajikistan	13.6
Turkmenistan	25.8
Ukraine	35.1
Uzbekistan	31.1
<i>average</i>	26.2
FSU, Baltic	
Estonia	37.9
Latvia	37.3
Lithuania	30.4
<i>average</i>	35.2
CEECs	
Czech Republic	38.8
Hungary	42.7
Poland	39.4
Slovak Republic	41.8
Slovenia	42.8
<i>average</i>	41.1