

# STATE WEAKNESS IN POST-COMMUNIST COUNTRIES: THE CONCEPT OF STATE CAPACITY

by Verena Fritz \*

## **Abstract:**

*This article addresses the issue of state capacity and suggests ways of conceptualising the term to make it more useful for the analysis of post-communist countries. While the state has recently been 'brought back in' to the debate about post-communist transitions, it still suffers from considerable conceptual vagueness. However, in order to understand why some states are weaker than others, we first need to have a clear grasp of how to assess state capacity. This article deals with three key aspects: first, it touches upon the normative debate about the 'ideal' role of the state and points out how state capacity is related to, as well as conceptually and empirically differentiated from, this normative debate; second, it develops a model of the dual aspect of the state – the state as provider of solutions and the state as source of problems; third, it discusses several options for empirically assessing state capacity. This paper suggests that, rather than a 'strong state', the normative opposite of a 'weak state' might be better termed a 'functional' or 'capable' state – i.e., a state that enables society to respond continuously and dynamically to a changing international environment.*

**Keywords:** state capacity; state; post-communist transition.

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*The state is the fictitious entity by which everyone seeks to live at the expense of everyone else.*<sup>1</sup>

Frederic Bastiat

*The state is undeniably a messy concept.*<sup>2</sup>

Michael Mann

As a result of political and economic transition, the state is being transformed in post-communist countries.<sup>3</sup> In the countries of the former Soviet Union and former Yugoslavia, as well as in Slovakia, new states have been established. In many of these recently formed countries, the state is malfunctioning: it does not deliver the services expected by citizens; its institutions are regarded as corrupt and self-serving; and public infrastructure and public services are poorly maintained, especially in rural areas. In many post-Soviet countries the public sector has shrunk dramatically since 1992, from over 40 to around 20 per cent of GDP. While the state is shrinking, informal 'side-payments' have become the norm – for access to schools and universities, or to medical services. At the same time, while there are obvious signs of weakness, in some places there are also signs of a rebound. For example, in 1998, Russia experienced a crisis due to the extremely poor management both of state revenues and of its rapidly rising debt; but only a few years later, Russia's public finances look rather robust, due to a mixture of policy changes (a major tax reform) and chance (rising revenues due to higher oil prices). Thus, while in some countries state capacity appears to be stabilizing, in others, such as Georgia and Moldova, deterioration and/or extreme weakness persists.

Given these developments, state capacity is increasingly regarded as a key issue for many post-communist countries. Initial debates focused on political and economic transitions ('democratization', 'marketization'), as well as on issues of national identity, and tended to neglect the state. More and more, however, the weakness of many post-communist states has come to be seen as a significant obstruction to these other processes and as a major problem for the citizens of these countries.<sup>4</sup> While the term 'state weakness' has come to be widely used, its contours have

1 Frederic Bastiat, 'The State', *Selected Essays on Political Economy*, §5.20.

2 Michael Mann, 'The Autonomous Power of the State: Its Origins, Mechanisms and Results', in: John Hall (ed.), *The State. Critical Concepts*, London: Routledge (1994), 333.

3 In this article, 'post-communist' refers to all countries that entered the transition process in the early 1990s, i.e. comprising Central, Eastern, and South Eastern Europe as well as the successor states to the former Soviet Union. 'Post-Soviet' refers only to the latter group of countries.

4 Thomas Carothers, 'The End of the Transition Paradigm', *Journal of Democracy*, vol. 13, no. 1 (2002), 5-21; Stephen Holmes, 'What Russia Teaches Us Now. How Weak States Threaten Freedom', *The American Prospect*, vol. 8, no. 33 (1997), 30-39.

remained rather vague. Many different phenomena are attributed to state weakness—from high levels of corruption and the erosion of social safety nets, to the failure to generate economic growth and employment and provide effective law and order. Thus far, there has been little discussion as to how state weakness can be more systematically assessed. Furthermore, most investigations of state weakness have focused on a single case. However, in order to deepen our understanding of the issue, it is necessary to make comparisons both over time and between cases. Only such a comparative perspective will enable adequate answers to the questions of why some states develop weaker capacities than others, why state capacity sometimes grows over time, sometimes erodes, and sometimes stagnates.

This article aims to contribute to a more systematic discussion of state capacity and state weakness in post-communist countries.<sup>5</sup> The discussion proceeds through three stages: first, it outlines some normative issues, drawing on debates about the state in OECD-countries; second, it elaborates a method for assessing states that does not view them one-dimensionally, as either weak or strong, but rather in their double aspect as a source of solutions and as a source of problems; finally, it puts forward three options for assessing state capacity. Empirical examples are drawn primarily from the post-Soviet world – i.e. from the 15 successor states to the Soviet Union – with some references to the wider post-communist region.

## 1. The normative side: what state capacity?

When embarking on an analysis of state weakness, some of the key normative issues that have informed the recent debate on the state internationally first need to be staked out. This debate is important for post-communist countries, not least because it shapes the broader policy environment and informs international interventions in the region. In addition, it raises the fundamental question of which state model should be pursued.

The 1980s and 90s were dominated internationally by a neo-liberal discourse that tended to regard the smallest possible extension of the state as ideal<sup>6</sup>. In fact, however, in only a few OECD countries, notably Britain, was the state actually drastically reduced. However, many

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5 To some extent, we may take democratization theory as a model. It grew out of a long and nuanced debate about the nature of democracy, how it can be assessed, and how it can be fostered.

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

countries engaged in at least some public sector reform, often with the aim of fostering greater efficiency, thus introducing neo-liberal ideas into their bureaucracies. When the socialist system in Eastern Europe collapsed, the over-extension and presumed excessive strength of the state, rather than its weakness, was widely regarded as the key problem.<sup>7</sup>

Critics of this 'minimalist' view have pointed to the fact that, after a decade of transition, many countries suffer from a weak state, in need of capacity reinforcement, rather than an overextended state, requiring further downsizing. These critics have pointed to the costs in terms of social welfare, as well as economic potential and human rights, for those countries in which the rule of law and the enforcement capacities of the state are weak.<sup>8</sup> In addition, weak states are easily captured by powerful groups, which then use whatever instrumentality remains (for example, licensing) to their own advantage, i.e. to extract rents.<sup>9</sup> Furthermore, it appears that weak states in Eastern Europe are embedded in weak societies, i.e. societies that have very limited financial and organizational resources with which to replace the state as an organizing structure.<sup>10</sup> Thus, Eastern European societies have fewer resources than affluent Western societies, in which state downsizing occurs, to dedicate to taking over state functions.

Furthermore, contrary to what is implied in neo-liberal discourse, the demands on a modern state are considerable. Today, states are widely expected to provide at least basic health care and education, as well as to act as highly sophisticated regulators of private property rights, including of complex financial markets. Thus, even the neo-liberal ideal of a 'night-watchman state', which concentrates on setting and enforcing rules for private actors, and eschews any redistributive function, requires quite considerable state capacity. Accordingly, the role of the state has tended to expand along with increasingly complex markets and societies.<sup>11</sup>

7 Andrei Shleifer and Robert Vishny (eds.), *The Grabbing Hand: Government Pathologies and Their Cures*, Cambridge: Harvard University Press, 1998. See also Leszek Balcerowicz's recent talk at the EUI.

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

9 See Joel Hellman, Geraint Jones, Daniel Kaufmann, and Mark Schankerman, 'Measuring Governance, Corruption, and State Capture'. *Policy Research Working Paper*, no. 2312, World Bank, 2000; and Joel Hellman, Geraint Jones, and Daniel Kaufmann, 'Seize the State, Seize the Day'. 'State Capture, Corruption, and Influence in Transition'. *Policy Research Working Paper*, no. 2444, 2000. Both papers focus primarily on company behavior and pay less attention to the characteristics of the state that determine whether or not 'state capture' occurs.

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

11 The notion that the state grows as a function of the increasing complexity of the economy and society was initially formulated by Adolph Wagner, a German economist, in the late 19<sup>th</sup> century. It is interesting to note that in recent years this growth has been halted and even to some extent reversed in several countries. However, except in cases where downsizing was imposed by economic crisis, the state has retained a significant role in OECD countries.

Thus, a 'weak' state and the kind of minimal state advocated by neo-liberalism are two very different things. Where state capacity is weak, the state may fail to provide exactly those core services that 'minimalists' see as essential, such as protecting property rights and enforcing contracts. Instead, weak states are likely to have an underpaid and/or politically dependent judiciary that is open to corruption or political influence, or both. Accordingly, weak states are also likely to lack the necessary capacity to act as effective regulators when public services (from the provision of water to pension schemes) are privatized. By the same token, weak states cannot develop into effective social welfare states. For example, where the state is too weak to enforce the taxation of powerful groups, becoming a social democratic state may be articulated as a goal, but it cannot be achieved and maintained in reality. Therefore, it is important to recognize that low state capacity, in itself, limits and constrains the options available to states.

The key question currently facing Eastern European states, especially the region's new states, is not whether they should adopt larger or smaller roles. Rather, the issue is whether existing states can serve as effective providers of solutions to the collective action problems of their respective societies. The main challenges confronting these countries include: modernizing their economies and their administrative apparatuses in order to narrow the existing gap in income levels with those of Western Europe; containing and reversing the spread of poverty; and positioning themselves within or on the periphery of the European Union. In taking up these challenges, it is important to emphasize that there is no 'one size fits all' prescription for states. In a few years time, once the dust of transition has settled further, it may be of interest to study how and why these states developed larger or smaller roles within their societies. For the time being, however, it is worthwhile to examine the methods for empirically assessing the capacity of a particular state, without determining, a priori, whether a larger or smaller state is more desirable for the countries of Eastern Europe.

## **2. States as solutions and states as problems**

A helpful device for approaching the issue of state capacity is to distinguish between the state as a provider of solutions (providing public goods, solving the collective action problems of society) and the state as a source of problems (state failure, the costs and risks

associated with state action).<sup>12</sup> Both of these aspects of the state are crucial for analyzing and addressing the problem of state weakness in transition countries. For example, states in the region may suffer, to varying degrees, from both a low level of functionality (the state as a provider of solutions) and a high level of dysfunctionality (the state as a source of problems).<sup>13</sup>

State functionalities concern the range of public goods that a state undertakes to provide to its citizens. These may include the provision of domestic and international security; the establishment and maintenance of a system of law and order, including the enforcement of contracts; the provision of public health and public education services; the redistribution of resources (welfare state). Thus, the state as provider of solutions for the collective action problems of society is the core idea with regard to state functionalities.

State dysfunctionality, on the other hand, concern the negative aspects of the state. In Eastern Europe, the primary state dysfunctionality involve corruption of various kinds and the arbitrary application of rules. These dysfunctionality range from petty corruption to the complete undermining of state agencies, such as the widespread involvement of state security organs in criminal activities.<sup>14</sup> Furthermore, any function that a state assumes entails costs and risks—the costs include tax revenues to finance state action and state regulation, while the risks are related to the emergence of dysfunctionality, such as corruption and arbitrariness.

	<b>state as a problem low</b>	<b>state as a problem high</b>
<b>state functionality high</b>	fully capable state	capable, but stifling state
<b>state functionality low</b>	'low-level' state	weak and disruptive state

Looking at the matrix above, which combines the two aspects of the state, the challenge for post-communist states is clearly to move from the lower right hand (or, in some cases, the upper right hand) towards the

<sup>12</sup> The terminology is derived from Peter Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change'. In: Stephan Haggard and Robert Kaufman, *The Politics of Economic Adjustment*. Princeton: Princeton University Press (1992): 139-181.

<sup>13</sup> There are other important distinctions in the literature: most importantly, that between 'despotic' and 'infrastructural' powers, as proposed by Michael Mann. See Michael Mann, 'The Autonomous Power of the State: Its Origins, Mechanisms and Results'. in: John Hall (ed.), *The State. Critical Concepts*, London: Routledge (1994), 331-385.

<sup>14</sup> This is reportedly the case with the Georgian police, for example.

upper left hand, i.e. a state that is both more functional *and* less of a source of problems. Overcoming state weakness therefore must involve both an increase in the quality and quantity of the solutions provided *and* a reduction in the costs and dysfunctionalities entailed – i.e. it involves processes of both strengthening *and* restraining the state.

### 3. Assessing state capacity

How can state capacity be assessed, taking into account these two aspects of the state? Various international organizations have generated 'governance' and 'institutional quality' indicators.<sup>15</sup> These indicators have two weaknesses: first, they tend to be biased towards (political and economic) liberalism; and second, they do not allow us to observe the process by which state capacity develops in a certain way, and why. The bias towards liberalism means, for example, that these indices rate countries higher, which have a more liberal trade and currency regime. However, as Kitschelt reminds us, 'withdrawing the state' (liberalizing prices, exchange rates, trade, etc.) is relatively facile, while the real challenge of institutional reform is to build new effective institutions. Thus, the level of liberalization is not necessarily a good measure of state capacity, since liberal policies may in fact be combined with very weak state capacity.<sup>16</sup>

Another readily available indicator is the level of state revenue (as a share of GDP) or the size of a state's bureaucracy. While fiscal or administrative size provides a reasonable first impression, it is important not to equate size with capacity. For example, the South Korean state extracts a lower share of GDP than does that of the Russian Federation, but the former country is generally considered to have a far more capable state than the latter.<sup>17</sup> Still, sudden and sharp changes in fiscal size may indicate serious problems in the economy and with regard to state capacity (or a combination of both), which would call for further examination.

In order to gain a 'deeper analysis' of state capacity, three basic approaches are available. One is to start from an assessment of the 'black box' – the internal workings of the state machinery. A second approach

15 For the World Bank's assessments of governance around the world see [www.worldbank.org/wbi/governance/govdata2001.htm](http://www.worldbank.org/wbi/governance/govdata2001.htm).

16 Herbert Kitschelt, *Post-Communist Economic Reform: Causal Mechanisms and Concomitant Properties*, Paper presented at the APSA Annual Meeting, San Francisco, August 29, 2001.

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

is to consider the 'output' of a state and how it is regarded by its citizens ('outputs' may be economic growth or levels of education; while citizen assessments of government may be measured through surveys of the levels of trust and satisfaction). A third, and related, measure is to examine a state's 'gaps': the size of the informal economy – i.e. the economy not covered by the state's fiscal reach – or the share of territory that is not completely under the central government's police function. These are two of the most significant gaps, while others include the number of children not covered by elementary schooling or the number of annual electricity outages. However, these are sectoral, fine – grained assessments, which will not be taken up here. In what follows, each of the three approaches sketched above will be addressed in turn, with an emphasis on the first.

To assess the internal machinery of the state and its capacity it is necessary to disaggregate three capacities: decision-making, the implementation of decisions, and control. A fully capable state would rate highly in all three. However, some states may have high implementative capacity but may be somewhat impaired with regard to their ability to reach decisions (for example, due to the existence of multiple veto-players capable of blocking decisions, as in Germany's federal structure). In other states, decisions are being made, but implementation remains patchy (as with reforms in many transition countries). Control capacity is the least considered of the three dimensions, but is also very important, especially with regard to keeping potential state dysfunctions in check. Thus, countries with low levels of corruption will usually contain a set of effective control mechanisms.

A state's decision-making capacity may be low for various reasons. One is that there are too many veto-players that can stall the legislative process.<sup>18</sup> Another problem, which has not been as well theorized, but which is found in several post-Soviet countries, occurs when different branches and levels of government (president, cabinet of ministers, parliament; the central and local governments) engage in competitive rule making. Rule making does not only take the form of laws, but includes executive decrees and orders, which sometimes concern areas of considerable legislative importance.<sup>19</sup> Thus, decisions are being made and are in fact proliferating, but one governing body's decisions are not treated as binding by others. This lack of integration of the decision-

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18 George Tsebelis, *Veto Players: How Political Institutions Work*, Princeton: Princeton University Press, 2002.

19 Thus, for example, a considerable share of decrees in Ukraine concerns personnel decisions. However, at least until mid-1999, the president also had and used the power to engage in economic policy making by decree.



making structure is a very serious aspect of state weakness, since it undermines the very relevance of rules.

There is a related problem in that new states often face the challenge of adopting new constitutions and making them work. Especially when state-building is combined in some form with political transition, constitutional crises are quite common – because agreement on a new constitution cannot be found, because of the lack of a strong constitutional court to adjudicate disputes between the legislative and executive, because there is pressure to change the constitution after only a few years, or, last but not least, because a political crisis leads to a power vacuum in which nobody is certain how to apply the constitution (as, currently, in Serbia and Georgia). All of these problems with the constitutional regime tend to slow or block a state's decision-making capacity for considerable periods of time, with sizeable negative effects on general state capacity.

With regard to decision-making capacity, it is also revealing to take note of the relative balance and constitutional linkages between the legislature and the executive. In those post-Soviet countries in which the two are elected separately (i.e. those with a directly elected president), the two branches of power have frequently blocked each other (as, for example, in Russia for most of the 1990s, and in Ukraine). In more authoritarian countries, parliament has sometimes been rendered impotent; decisions are made by the executive with minimal input from the legislature (for example, in Belarus). In more democratic countries with developed parliamentary systems, the executive (prime minister) and the parliamentary majority are usually politically aligned, thereby facilitating decision-making. However, such a configuration also often entails the loss of some of parliament's capacity to balance the power of the executive.

In addition, it is essential to consider not only the speed and facility with which decisions are made, in response to the challenges confronting a given country, but also to evaluate the quality of these decisions. An important criterion in this regard is whether a decision tends to benefit all, or whether it privileges a particular group. Thus, in politics, decisions are taken not only to solve the collective action problems of societies but also in response to the effective lobbying of certain interest groups. Sometimes the line is not easy to draw: for example, an industrial policy which grants privileges to a certain sector may be officially justified on the grounds that the whole economy will benefit from that sector's growth. However, the lion's share of the benefits of such a policy may accrue to a select few who control that particular sector. Decisions that privilege certain groups over others inherently increase the risk of state dysfunctionality. Even if the privileges themselves may be justified, such

'special treatment' contains the potential for abuse by the well-connected who would not normally qualify for special dispensation.

Thus, while decision-making capacity is often riddled with problems, it is the dimension of state capacity that is the easiest to observe. In countries where decision-making problems exist, draft laws may be pending for years, reforms that are widely regarded as necessary may not be undertaken, or there may be protracted general political crises. Decision-making capacity can be systematically measured by looking at the number of laws adopted per year, or by studying particular sectors or policy fields (for example, education, labor policy, administrative reform, etc.) with an eye to whether reforms that are widely considered necessary are actually implemented. It is more complicated, however, to systematically assess the *quality* of decisions, since this often involves a judgment as to whether certain advantages granted to one group over another are justified. Thus, in order to assess the quality of decisions, it is necessary to turn to the second dimension of state capacity: implementation.

Implementation requires the existence of administrative structures capable of executing the decisions adopted at the highest political levels and realizing them on the ground. Efficient, 'Weberian' bureaucracies – i.e. ones that follow official procedures rather than arbitrary commands from above, which are relatively free of corruption and staffed according to meritocratic principles—are rare and difficult to achieve. Peter Evans has stressed the importance of capable bureaucracies for the economic success of the East Asian countries.<sup>20</sup>

With regard to implementation capacity, there are also important links to the fiscal size of the state. A considerable level of revenue is necessary to finance a functioning bureaucracy. Where implementation capacity is weak, the risk arises that a large share of potential revenue cannot be extracted, thus engendering a vicious circle of weak implementation and weak revenue extraction, which results in a chronically underpaid and corruption-prone bureaucracy.

However, implementation capacity is not only necessary for extracting revenue, but also for spending funds effectively to further policy goals, maintain a regulatory function (for example, of monopolies, complex financial markets, etc.), and enforce private contracts. In order to finance intensive programs for regional and national economic development—such as building, maintaining, and improving infrastructure or reforming educational systems – the availability of sufficient revenue

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20 Peter Evans, *Embedded Autonomy. States and Industrial Transformation*, Princeton: Princeton University Press, 1995.

is of central importance, but so is the efficient management of these resources.<sup>21</sup>

A particular risk in post-communist countries is the selective implementation of rules.<sup>22</sup> As Valerie Bunce has pointed out, the old communist systems tended to function by 'telephone rule'. Indeed, in this tradition, there is still a widespread tendency to privilege the well-connected or – especially in countries which are not fully democratic – to punish political opponents. Thus, for example, tax evasion, which is pervasive in many post-communist countries, may be prosecuted in some cases but condoned in others. The selective implementation of rules—whether politically motivated or because patronage networks and corruption are not sufficiently controlled by the political leadership—undermines the norms of rationality and any 'Weberian' ethos that may exist in a bureaucracy. Furthermore, it is likely to undermine the voluntary compliance of citizens to the rules of the state, making the enforcement of rules more costly. Thus, if implementation is selective, the dysfunctional aspects of the state are likely to increase.

To some extent, there may be trade-offs between decision-making and implementation capacity: a decision agreed upon by all relevant stakeholders takes more time to reach but often subsequently proves easier to implement. Furthermore, at the implementation stage, it is possible to observe which decisions are treated as binding by executing agencies and which are not, as well as how contradictory decisions are handled (for example, in the case of contradictory laws, which are common in post-communist countries where a great number of new laws have been adopted in recent years).

In contrast to decision-making capacity, observing implementation capacity is more difficult and 'research-intensive', especially in assessing particular weaknesses and their causes. There are, however, several possible ways to proceed. First, various techniques can be employed to identify gaps in implementation. For example, with regard to the fiscal system – which is the pillar of any state—it is possible to determine whether a state collects taxes in line with existing laws<sup>23</sup> and disburses

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21 Thus, as a rough guideline, revenue levels significantly below 20% of GDP may pose a problem for the development of sufficient implementation capacity in a modern state. Most Eastern European countries—including those of the Former Soviet Union and South Eastern Europe—have relatively high revenue levels in comparison to countries at similar levels of development, for example, in Latin America. Thus, their main challenge is to improve the management of public funds and to stimulate the economy so that the real income rises, both for the private and the public sector.

22 Valerie Bunce, 'The Political Economy of Post-Socialism', *Slavic Review*, vol. 58, no. 4 (1999b), 756-793.

23 This can be determined, for example, by calculating how much VAT should be paid given the yearly GDP and its composition and comparing this to VAT actually paid.

public funds in accordance with the budget. Another type of implementation gap can be isolated by determining whether states actually pursue planned reforms – such as administrative reform – over time. However, this can pose a significant challenge given that such reforms are usually carried out over a number of years and thus success or failure is not always easy to determine. In general, this approach entails a study of the extent to which the bureaucracy deviates from the 'Weberian' ideal and an analysis of the main causes for deviation.

Second, particular sectors can be examined with an eye to whether political decisions and general goals are actually pursued at the implementation level – i.e., whether the educational system works, whether public security is provided, etc. Implementation capacity may be uniformly weak across sectors, or it may vary by sector, stronger in some than others.

Finally, as with decision-making, an analysis of the relative strength (and regularity) of implementation capacity must not neglect its quality. In general, implementation, as part of the overall state capacity, should be geared towards solving the collective action problems of societies and not towards extracting resources from society for the benefit of elite groups, or towards repressing citizens in the interests of a dictator or ideology.<sup>24</sup>

The third dimension of state capacity is control. Control capacity has two sub-dimensions: on the one hand, the control of political elites over the administrative 'trenches' (managerial control); and, on the other, the political control of elites, through checks and balances as well as accountability to citizens. Both forms of control are necessary to prevent corruption – the first, to prevent petty corruption in the administration; and, the second, to prevent high-level corruption within the political elite. Effective control mechanisms rely on specialized institutions such as accounting chambers and divisions for internal revision. Such control structures serve to keep potential state dysfunctions in check. Furthermore, they are crucial for a more effective steering of state activities, since they provide important feedback about implementation achievements and failures.

The way control is exercised in a state closely correlates with the type of political regime in place – since ultimate control resides with the 'sovereign' – which in the case of communism was (de facto) single party rule and/or autocracy (as in the case of Romania). In

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<sup>24</sup> Thus, three demands can be imposed on implementation capacity: first, that there is a capacity to 'get things done'; second, that things are done based on rules rather than on arbitrary commands; and third, that the things which are done promote the welfare of society rather than satisfying the demands of a dictatorial regime.

democracies, by contrast, sovereignty inheres in the people, requiring the existence of adequate means of ensuring that voters/citizens can exercise control. However, for a number of reasons, it has not been easy to transition from previous top-down, and often oppressive, control systems to the kind of horizontal and vertical control systems that are essential to any democratic regime.<sup>25</sup> In the words of Alexander Hamilton: 'If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. A dependence on the people is, no doubt, the primary control on the government; but experience has taught mankind the necessity of auxiliary precautions'.<sup>26</sup>

A number of difficulties arise: first, communist countries were rather rich in control institutions (in the Soviet Union, these ranged from the KGB and the *Kontrol'noe Revisionnoe Upravlenie*, to a strong procuracy, which was an institutional legacy of the tsarist regime, and various 'people's control' organs), which focused more on the suppression of dissent than on the attainment of policy goals.<sup>27</sup> Thus, these countries are heir to a legacy of politicized and oppressive control, which was often selective, contributing little to making the public sector more efficient and nothing to making it more accountable. This legacy has resulted in fairly widespread suspicion of powerful control institutions in many post-communist countries.

Furthermore, since control systems are closely tied to regime type, they need to undergo extensive restructuring during and after regime change. Thus, control capacity will almost certainly be reduced for some time during transition. In the early post-communist period, for example, control capacity was very low in many countries during the critical phases of large-scale privatization.

If a regime change is to some extent contested, then the establishment of democratic forms of control may be blocked or impaired for considerable periods of time. Also, in similar ways to the fragmentation of decision-making capacity, competing control mechanisms may be created (as in Armenia, where the president, the prime-minister, and parliament each have their own control institution).

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25 'Horizontal control' refers the checks and balances within government, while vertical control refers to the control citizens can exercise over their governing elites.

26 Alexander Hamilton, James Madison, 'On a Just Partition of Power', *The Federalist*, 1788.

27 David Christian, 'The Supervisory Function in Russian and Soviet History', *Slavic Review*, vol. 41, no. 1 (1982), 73-90.

Finally, it is not easy to establish an effective control system under conditions of deep institutional erosion and high levels of corruption. The obvious risk is that control structures themselves will become part of the 'corruption game' – for example, when those who are supposed to be checked simply pay to be let off the hook.<sup>28</sup>

Control capacity is not easy to assess, but such an assessment can be approached in the following manner. First, it must be determined whether relevant mechanisms are in place at all, such as treasuries providing data on expenditure flows, internal control divisions, and accounting chambers. These are the preconditions for effective managerial control, but also for the transparency necessary for accountability to voters (which is then linked to mechanisms such as voting and a free press which lie outside the realm of state capacity itself). Second, the question of the effectiveness and functionality of established mechanisms must be addressed. However, it is important to bear in mind that institutions that are entirely new, such as accounting chambers in many countries, may take several years to become effective. Third, looking at estimates of corruption in a country over time allows for an assessment of the effectiveness of the mechanisms that are put in place. Finally, the frequency and effectiveness of corruption prosecutions, and the level at which they are undertaken, can be important indicators.

Thus, observing and analyzing each of these three dimensions provides an in-depth picture of state capacity, its weaknesses and strengths, as well as the functionalities and dysfunctions of a particular state. It helps to shift the terms of the discussion from the various negative impacts of presumed state weakness to a more systematic assessment of the phenomenon itself. Moreover, such an in-depth assessment also allows for an understanding of why states develop capacities in certain ways (especially if a number of cases are assembled for comparison). The major disadvantage is that any such assessment of state capacity would be research intensive, thereby precluding easy analyses of a larger number of cases. Therefore, it is worthwhile to consider the two other approaches mentioned above: examining outcomes (and their perception by citizens) and 'gaps'.

Most aggregate outcomes are relatively easy to observe, for instance levels and changes in GDP. Assuming, based on institutionalist theory, that positive results require sound institutions, strong and sustained growth (and/or high levels of GDP) would imply the existence of well-functioning institutions. This is also in line with the observation that the

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<sup>28</sup> This problem may exist both in public-private relations (for example, the payment of bribes in connection with tax evasion) and in relations of control within the public sector.

East Asian countries that managed to catch up to OECD-levels of development had relatively high levels of state capacity.<sup>29</sup> However, such an analysis is often possible only after the passage of considerable periods of time, since, in the shorter term, growth may recover due primarily to the bottoming out of an economic crisis, or to a change in the terms of trade, rather than to a decisive improvement of institutions.

More detailed output indicators may also be of considerable interest, but are not always 'ready-made', especially not on a comparative basis. The OECD Pisa Study, on educational achievement in a number of OECD and other countries (the study included the Russian Federation, Hungary, Latvia, the Slovak Republic, the Czech Republic, Poland, Serbia), represents one positive example.<sup>30</sup> This study measured the outcomes of educational sectors on a comparative basis, thus focusing on the outcomes produced by state capacity in a particular sector. The debates in various countries triggered by the results of this study demonstrate the importance of providing such measures of outcomes. However, when outcomes are low, it would be necessary to return to the more detailed analysis outlined above, in order to understand where key weaknesses lie, i.e. in decision-making, implementation, and control.

Another means of measuring outcomes is through surveys of citizens' trust in government institutions and their satisfaction with various branches of the public sector. However, there are many problems associated with interpreting the results of such surveys, especially if one seeks to compare results from different countries – *inter alia* since the standards, which citizenries apply to their states, may differ considerably.<sup>31</sup>

Finally, the third option for assessing state capacity is to focus on the 'gaps' of a state. The ideal type of a state is one that controls its entire territory, holds a monopoly over the application of force, and exercises its sovereign right to collect revenue over the entire economy. However, many states have considerable 'gaps' in the exercise of these powers: they do not control parts of their territory, the right to employ force has either been partially privatized or is challenged by armed gangs, and/or a considerable shadow economy exists.

The failure to control sections of territory represents the most obvious gap, as in the case of Moldova and Georgia, as well as Afghanistan and Colombia among others. However, the level of state

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29 Peter Evans, *Embedded Autonomy. States and Industrial Transformation*, Princeton: Princeton University Press, 1995.

30 See [www.pisa.oecd.org/index.htm](http://www.pisa.oecd.org/index.htm).

31 Geert Bouckaert and Steven Van de Walle, 'Comparing measures of citizen trust and user satisfaction as indicators of 'good governance': difficulties in linking trust and satisfaction indicators', *International Review of Administrative Sciences*, vol. 69, no. 3 (2003), 329-343.

capacity exercised in the territory that is controlled differs considerably from country to country. At the same time, the existence of territorial gaps means that implementation is (highly) asymmetric: citizens living in the un-controlled areas receive little or none of the public services usually supplied by their state (competing groups may supply some public services, but in most cases the level will be lower than in the rest of the country).

Shadow economies constitute a universal form of gap, i.e. all countries will have some parts of the economy that escape the tax net of the state. However, once this 'gap' grows beyond 15 per cent or so of official GDP, the shadow economy becomes a serious problem. A large shadow economy indicates a weak implementation capacity in general i.e. not territorially specific, but may also involve weak decision-making capacity (i.e. the failure to adopt a tax reform and/or the proliferation of tax exemptions). Estimates of the shadow economy are subject to considerable margin of error, but they are available for a number of Eastern European countries.<sup>32</sup> Understanding the extent of the shadow economy helps to put other data – particularly the fiscal size of the state – into perspective. Thus, when a state extracts a high level of revenue, but at the same time is unable to tax large segments of the economy, it is more dysfunctional than a state which extracts lower levels but does so from the economy as a whole, thereby distributing the burden more evenly.

As this discussion indicates, there are only highly imperfect proxies for state capacity that are readily quantifiable. The spread of performance indicators in the public sector represents a promising development. However, while states in the West feel increasing pressure to measure and demonstrate what they produce for their citizens, this pressure is currently much lower in Eastern Europe, at least in the non-accession countries. Thus, those quantitative indicators that are available should be sought out when assessing the state capacity either of a single state or of a group of cases. Especially in comparative analyses, it may also be useful to aggregate different quantifiable proxies into an index. However, for a deeper analysis of state capacity, it is essential to pursue the more 'research-intensive' route outlined above, examining the various elements of capacity in detail.

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<sup>32</sup> Friedrich Schneider, 'The Size and Development of the Shadow Economies of 22 Transition and 21 OECD Countries', *Discussion Paper Series*, no. 514, Institute for the Study of Labor, June 2002.



## Conclusion

This article aims to draw attention to the issue of state capacity, and to suggest a framework for a more systematic approach to it. While weak state capacity is increasingly recognized as a problem, the debate has thus far produced few concrete assessments that would begin to answer questions such as: Which state is weaker and which is stronger? How can we capture the particular weaknesses of a state? How has the capacity of a state developed over time? Disaggregating state capacity into three dimensions allows for a more systematic approach to such questions, while quantitative indicators (to the extent and level of detail available) allow for a determination of whether higher state capacity is in fact correlated with better outcomes at the aggregate and/or sectoral level.

Democratization has been discussed at great length and depth with regard to this region. It is now desirable to address the issue of the state with some of the same analytical intensity. Such a debate on the state can both draw from democratization theory and build links to it, by considering, for example, the connections between regime transition and changes in state capacity. Thus far, the effects of transition on state capacity have been neglected (while, in the opposite causal direction, the effect of stateness on democratic consolidation has received some attention).

Furthermore, this article has sought to link the current debate on state weakness in post-communist countries to broader debates on the state. In this vein, the differences between a weak state and a deliberately small (minimalist) state have been emphasized. Also, it is important to stress that states are not only characterized by a certain level of functionality, but that their degree of dysfunctionality is equally significant.

It is clear that, for post-communist countries, not every kind of state strengthening would be desirable. Moving backwards to a powerful but arbitrary state, which is removed from society, may solve some problems – such as re-establishing public order – but such an 'old-style' strong state would be unable to meet the current challenges of economic transition and catching up with the more advanced parts of Europe. Thus, in the current debate, the normative opposite of a 'weak state' need not be a 'strong state,' but might be better termed a 'functional' or 'capable' state – i.e., a state that enables society to respond continuously and dynamically 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 leadership, represents the long shadow of the past, and is sometimes considered to be the (only) alternative to post-communist state weakness.