

Democratization and State capacity

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with

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When a polity “transits” from some form of autocracy to ... something else, what happens to the capacity of its state apparatus? And, if that something else becomes some form of democracy, does that distinctive, more-or-less centralized institution with a monopoly over the legitimate use of collective violence for a specific territory and population (cf. Max Weber) gain or lose in material resources, subject compliance, coercive means and/or symbolic presence? Is democracy intrinsically hostile to the state, as many liberals claim? Or, does it provide a more reliable base for the implementation of collective decisions, as many socialists and social democrats believe?

I. SOME EVEN MORE DIFFICULT QUESTIONS

The next question that comes to mind is “capacity of the state to do what?” For, as Max Weber also pointed out, the state cannot be defined in terms of its functions or tasks since over time and across units, it has performed a great variety of them and, hence, has needed a shifting set of capacities. These functions/tasks have tended to accumulate and contemporary state apparatuses are expected to provide their citizens or subjects with far more than protection from predation by other states or exploitation by their fellow citizens/subjects than they were supposed to do in the past. Nevertheless, it is safe to assume that when, say, Mali, Mongolia or Honduras democratizes its respective regime, the state will face less expensive demands and, hence, need less capacity than, say, Spain, Poland or Indonesia. It may also be that external powers will be more willing to provide some of the necessary resources to the state in the form of foreign aid in some cases rather than others. Put simply, both cross-temporal and cross-sectional comparisons of what happens to state capacity during and after regime change are risky endeavours.

First and foremost, states require material resources. Whatever functions/tasks they do assume, they need money and (leaving aside the potential for foreign contributions or rents on exports) they will have to extract this mainly from their own citizens or subjects. As a first and very primitive indicator for state capacity, we can control for the absolute size of the economy and examine the proportion of total GDP that is extracted as revenue by all levels of government. Later, we shall see that it is also necessary to control for the level of development since we have some (contradictory) reasons for believing that state revenues will vary with social and economic modernization.

Secondly, states with different regimes acquire material resources in different ways. What should be distinctive about democracies - once they are consolidated - is that they should be able to do so through various means of direct taxation. Any regime can compel its citizens to pay indirectly in order to build state capacity, especially when that state owns most of the productive resources of the economy and dictates wages and prices. If theories about democracy are correct, this form of legitimate domination should be better at organizing the consent of citizens and extracting resources voluntarily from them.

But these are hardly sufficient. States that are under serious threat from neighbours or involved in civil war will need more of a military capacity and that can be very costly. We do know (or think that we know) that democracies (even fledgling ones) do not go to war with other democracies, but this does not apply to waging war, even aggressive war, against non-democracies (as proven, for example,

by the recent American invasion of Iraq). Hence, we should not be surprised that when entire regions go democratic, e.g. Western Europe, Latin America and Central Europe, their state military expenditures may decrease as a function of a lowering in the level of external threat. Which, however, does not preclude that these ‘pacified’ democracies will not find other worthy internal functions/tasks to support from their savings on military portion of the budget.

Another vexing issue is that much that states do costs nothing or very little, especially if these states have regimes that are legitimate. True, all states need to extract material resources, but the amount depends not just on such an obvious thing as the level of threat they face, but also the type of public policies their regimes decide to pursue and to implement through the state. For example, they may choose to offload many responsibilities upon private or semi-private agencies (and compel its citizens to contribute to them). Or they can engage heavily in regulatory, rather than redistributive activities. These may eventually cost a great deal to firms and citizens, but appear only as very minor items in the public budget. An extreme version of this sort of arrangement is the European Union which spends less than 2% of the aggregate GDP of its member states and yet has a respectable capacity to regulate the behaviour of producers and consumers, rulers and citizens from Brest (France) to Brest-Litovsk (Poland).

Fifth, we have to be sensitive to the time perspective. When is democratization expected to affect state capacity? During the initial period of regime transition (when, by definition, virtually everything about politics is uncertain) there were many alarming claims that “the state is falling apart” because people were not paying taxes, police were not policing, civil servants were not getting paid, local notables were taking over, crime rates were going up, corruption had become rampant, court systems were paralyzed, armed forces were divided and disoriented, and new popularly elected executives seemed to be overriding and even dismantling the permanent structures of public administration. The very fact that such lurid descriptions have subsequently declined in number (and become less alarming in tone) is, perhaps, an indirect indication that these worries were greatly exaggerated. With the rather surprising and early success in consolidating democratic regimes - especially, in Central & Eastern Europe - it subsequently became apparent that, in most cases, citizens did eventually start to pay their taxes (or, at least, most of them); police did re-organize themselves (although not always with respect for human rights); civil servants and pensioners did begin to be regularly paid (if not always very much); crime rates did stabilize (and were often higher simply because reporting had become less hazardous); corruption by state officials did continue to be amply covered in the media (but now there was more freedom to do so); courts did return to work (and, often, were less subject to intervention by those in power); the military and internal security forces did come increasingly under civilian control (even if they were rarely held to account for the atrocities that had committed); and state and para-state bureaucracies did regularize their recruitment and procedures for policy implementation (and, often, without extensive purging of employees from the *ancien régime*). All this is not to say that democratization did not have a lasting effect on state capacity. Just that it was much less debilitating than initially thought.

Finally, we must be aware when comparing the resource extraction patterns of national states across a large number of units we are also making an implicit assumption that is - to put it mildly - highly controversial, namely, that *grosso modo* these states are making the same efficient use of these resources when converting them into state capacity. Now, we know - if only from the recent rank-orderings produced by Transparency International’s 2004 Global Corruption Perceptions Index - that neo-democracies tend in general to have serious problems with corruption and malfeasance and that, even so, there is a considerable range of variation across them. For example, in Latin America, an “old” democracy like Costa Rica ranks 41st among the 146 polities studied; whereas, new ones such as Brazil (59th) and Argentina (108th) score lower. However, Chile is a neo-democracy and it ranks a very

respectable 20th (ahead of the United States). Uruguay is 28th while the elderly democracy in Venezuela is 114th - even worse than Argentina! Unfortunately for our purposes, the TI index of perceptions does not measure exclusively **state** corruption, but also that of political parties, private firms, legislatures and local government.¹ Since no one has yet to come up with a specific measure of aggregate state efficiency, all that we can do is to remember that two countries extracting and spending exactly the same proportional resources from their population and/or from foreign firms, governments and NGOs may be “buying” very different amounts of capacity.

No single study is going to provide a definitive answer to these questions. They have long been debated between political forces within well-established democracies - without any compelling result. Moreover, as we have seen, there is every reason to believe that the terms of reference have changed in recent decades. Since 1974, over 100 countries have attempted a transition to democracy and the vast majority of these neo-democracies have not regressed to any form of overt autocracy. In the past, approximately two countries out of every three in Latin America that tried democracy failed and reverted to autocracy within a relatively short period. Even more surprising, they have entered into this process of regime change under an extraordinary variety of initial conditions. They have differed in levels of economic development, social structure, geo-strategic location, extent of international threat, size of country, ethno-linguistic heterogeneity, cultural tradition, religious belief system and, of course, pre-existing state capacity. If this were not enough, one could also add that it may be too soon to estimate the lasting impact of democratization upon state capacity. At the most - Portugal and Spain - these neo-democracies have existed for only 30 years. It took most of the archeo-democracies of Western Europe and North America 200 or more years to acquire their present level of state capacity - and sometimes even longer to consolidate their respective democracies.²

II. TWO CAVEATS

However, before plunging into the data on the impact of these varied historical experiences in regime change, we have to give some thought to two caveats:

- (1) Democracy is not the only thing that has affected state capacity. Its most serious and generic rival is development/modernization. The more a country is wealthy, urbanized, industrialized, literate, sophisticated, and so forth is bound to have an influence on the assets of its state - whether or not that state is governed autocratically or democratically. After all, this apparatus of legitimate coercion has to draw most of its resources from its own ‘domestic’ social and economic environment - whether or not that environment is liberal capitalist or state socialist or a mix of the two.³

The controversy is not over whether development affects state capacity, but in which direction. According to Adolf Wagner, a classical German political economist of the late 19th Century, the richer the country (and the larger and more politically powerful its middle class),

¹ In the definitive version of this article, it might be interesting to “discount” the data on total state revenue/expenditures by multiplying them with the above TI indicator of general perceptions or with a disaggregated index that included only perceptions of corruption in taxation, police, judiciary, customs, permit services and the military, i.e. core state functions.

² To the best of our knowledge, there exists no systematic study of this issue. The closest we have found is an edited volume of case studies: Mark R. Beissinger & Crawford Young (eds.), *Beyond State Crisis? Postcolonial and Post-Soviet Eurasia in Comparative Perspective* (Washington, DC: Woodrow Wilson Center Press, 2002). Since the cases described in it have been selected precisely because “the most obvious (dimension) has been the institutional incoherence of the state, visible in situations of manifest state weakness and, in some cases, state collapse” (p. 3), it can hardly be relied upon to give a balanced and comprehensive assessment.

³ We are, therefore, excluding those countries that are either so “imperial” that they can extract state resources from subordinate others or so “peripheral” that they depend predominately on favors, hand-outs and aid from super-ordinate others.

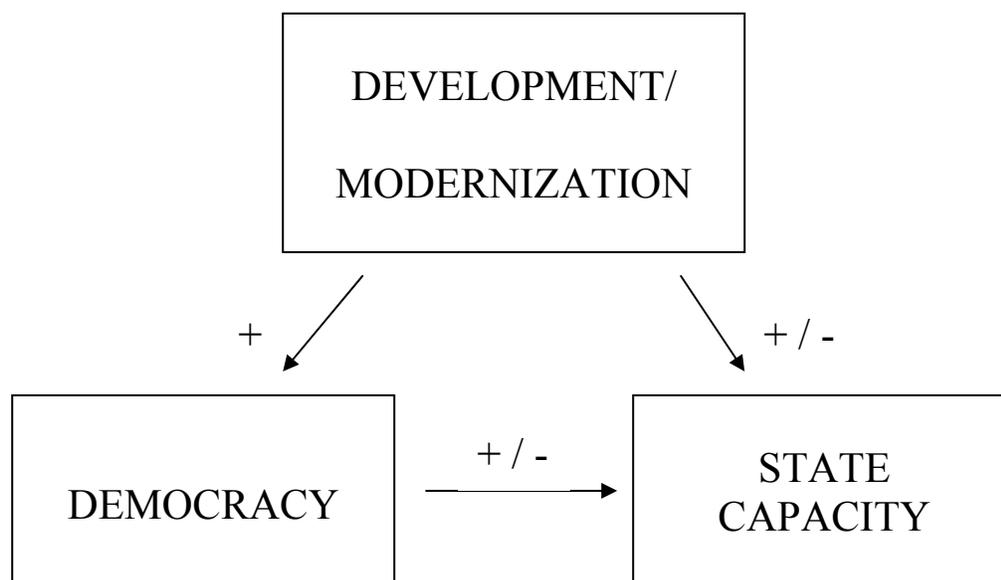
the higher should be the demand for public goods provided by the state. Wagner’s Law predicts that for every unit increase in per capita income, one should expect a unit increase greater than one in that country’s state expenditures - admittedly, a crude (but frequently used) measure of state capacity. It should be noted that this prediction is expected to hold regardless of the type of regime. Wagner, himself, professed at the University of Berlin with the full approval of the Bismarckian/Wilhelmian Monarchy with its renowned (and autocratic) *Rechtstaat*.⁴

According to contemporary neo-liberals - say, Milton Friedman - the inverse should be the case. The richer, better educated and more sophisticated the population becomes under capitalism, the more it should prefer the consumption of private goods that it becomes “free to choose.”⁵ (All things being equal), for every dollar in increased income, the average person should prefer to consume less than a dollar in state-provided goods. Again, although living in a different age, ultra-liberals such as Friedman are relatively indifferent to whether a given country is democratic or autocratic - as witnessed by the strong support he and his acolytes gave to the Pinochet dictatorship in Chile.

These contrasting views place us in an enviable analytical situation. We know that we have to “control” for development/modernization because we also know that, according to a very substantial and convincing literature, it is strongly correlated with democracy.⁶ Failing to do this is very likely to produce a spurious finding concerning democracy and state capacity. Any correlation between them could very well be produced by the overarching (and prior) effect of development/modernization.

Figure One

The (Potentially) Spurious Relationship between Democracy and State Capacity and Development/ Modernization



⁴ Adolf Wagner, *Allgemeine oder Theoretische Volkswirtschaftslehre* (Berlin: 1876).

⁵ Milton Friedman (with Rose D. Friedman), *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980).

⁶ SML + recent article by LD

What we do not know is the direction of this alleged correlation. If Wagner is right, any positive association between democracy and state capacity could be wiped out by introducing the level of development/modernization; whereas, the inverse would be true if Friedman were right and we discovered a negative association. It would not be democratization that weakened state capacity, but the concomitant factor of increased development/modernization.

(2) The second caveat concerns the *demos* (and, hence, the territorial limits) of the political unit that is being democratized. One of the greatest lacunae of democratic theory is its inability to prescribe what should be the boundaries, population and identity of the polity to which it is to be applied. Virtually none of the world's established democracies was itself "democratically" chosen and formed. War, revolution, marriage, monarchic fertility, dynastic ambition, the *virtù* of heroic founders or the *fortuna* of random events have determined the limits of their territories, the extent of their populations and the nature of their identities. Even the United States which comes closer than most to have been democratically "founded" had to suffer a lengthy and bloody civil war and engage in aggressive conquest of its southern neighbor before filling out its present configuration. The convocation of a plebiscite to determine "the will-of-the-people" concerning membership - a device used extensively after World War One and occasionally since - depends crucially on who is eligible to participate and under what conditions. And the "ownership" of these state properties is usually established through recognition by external agents, i.e. by other self-proclaimed national states and, of course, by acceptance as a member of the United Nations.

Given the absence of a reliable and acceptable democratic means for resolving this critical question, it is impossible to escape the conclusion the democratic regimes depend on the prior and independent formation of a state, i.e. some organization with a legitimate monopoly to apply force over a distinctive territory and population. Many theorists have argued that it is equally important that this territory and population coincide with a uniquely shared identity, i.e. that democracy requires the prior existence of both a nation and a state. The fact that these two conditions are only very rarely simultaneously present is said to make such a successful regime change difficult, if not impossible. There are almost always some borders that are contested or some populations that would prefer to govern themselves or be governed by some other state. To make this all the more problematic, one of the most frequent legacies of autocracies has been the suppression of conflicting territorial claims or collective identities. When the prospect of democratization becomes serious - usually after a previous process of political liberalization - actors acquire greater freedom to articulate such rival concepts of what the unit should be and, not infrequently, greater freedom to organize others in order to realize these claims.

In these cases - and the threatened break-up of pluri-national autocratic empires is the most extreme example - the issue is not so much state capacity as the very persistence of the pre-existing state. When democratization occurs under these conditions, the outcome can be very uncertain. For example, in the case of the former Yugoslavia, it was only determined after widespread violence and the intervention of external powers. The break-up of the Union of Soviet Socialist Republics (USSR) into 15 independent polities was more peaceful, but left a legacy of persistent inter- and intra-state conflicts that have made the consolidation of democracy difficult in some of them - as well as undermining the state capacity of several of these fledgling polities. Inversely, the so-called "Velvet" separation of Czechoslovakia into two sovereign national states, although it did not involve an explicitly democratic collective choice by the citizens of either of the two units, does not seem to have had a negative effect on the respective state capacities of the Czech Republic and Slovakia. Elsewhere, when the previous autocracy had to face an armed struggle for national independence (Namibia, East Timor) or a

civil war between domestic factions for control of the state (El Salvador, Guatemala, South Africa, Moçambique), subsequent democratization proved beneficial, not only in resolving the violent conflict, but also in improving the capacity of the eventual ‘pacified’ state.

But, to repeat, democratization is not - cannot be - an effective means for deciding what the *demos* should be. That can only be determined by some other process - usually, force of arms, protracted negotiation or outside intervention. Once these non-democratic means have been effective in making this choice, however, the usual democratic rules of competition and cooperation between political representatives will be crucial in determining the capacity of that state.

III. COMPARATIVE ANALYSIS #1

The principal focus of our analysis will be on the impact of democratization upon state capacity in the former communist countries of Central-Eastern Europe and the Soviet Union. It is there that we have reason to believe that the impact has been the greatest, if only because the role of the state (or, better, party-state) was so much greater prior to the change in regime. Under conditions of multiple, simultaneous transformation in several spheres of human activity, especially in the type of economy, the form of political domination, the position in international alliances and even in the identity and borders of the state, it can be expected that these established institutions will be most challenges and changes the most dramatic.

However, this should not be an excuse for treating them in isolation. It is only if we can “capture” them in relation to the evolution of state capacity in all contemporary polities and, in particular, to those that have recently undergone regime change that we will be able to the ways in which they may respond in particular ways to such a challenge. Therefore, we will start at the broadest possible level of analysis.

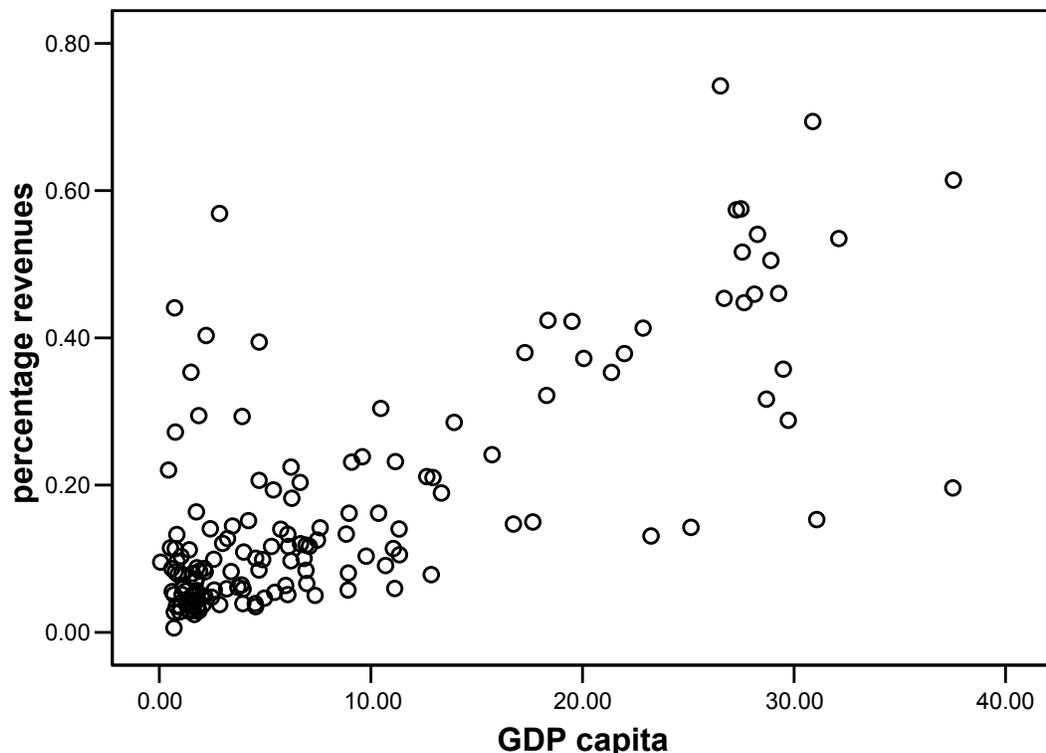
Let us first presume the following: (1) that the indicator of per capita national income (expressed in US dollars) captures the meaning of development, along with its associated features such as greater literacy, urbanization, education, health, social communication, personal mobility, international exposure, etc;⁷ and (2) that the revenue extracted from all levels of government as a percentage of Gross National Income is a preliminary (if primitive) indicator of state capacity. By correlating them across all of the world’s political systems as of the year 2000, we can discover whether there is a significant association between the two and whether it is positive (as Adolf Wagner claimed) or negative (as Milton Friedman and other neo-liberal seem to argue).

⁷ Actually, we know that this is only approximately the case, thanks to the development by the United Nations of its Human Development Index.

Figure Two

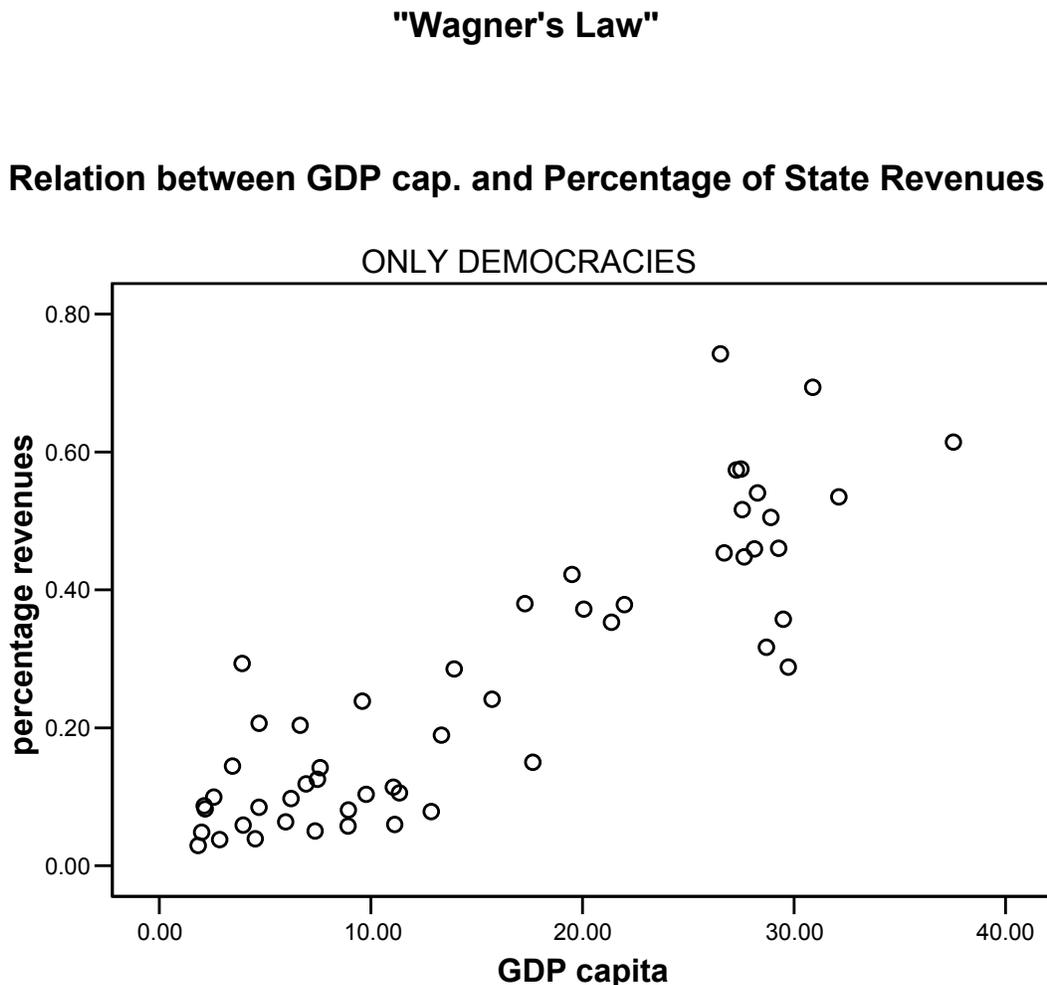
"Wagner's Law"

Relation between GDP cap. and Percentage of State Revenues



The answer is unambiguous: Wagner's Law was essentially correct. The richer and more developed the country, the more it will spend on public goods provided by its state. The raw (Pearson's Product Moment) correlation is .688, which "explains" a hefty 47% of the variance. There is .000 chance that this could be due to chance alone. Interestingly, Friedman et al. seem to be correct about only two cases. The strongest outliers in Figure Two are the United States of America and Hong Kong. In both cases, we find a high per capita income and a relatively low level of extraction of public revenue from that total income. In the opposite direction are Cuba and the Central African Republic where lower levels of development have not impeded these countries from channelling a large proportion of their resources through their respective governments. For example, if we just suppress the USA from the scatterplot, the correlation coefficient goes from .688 to .707 and its square predicts exactly 50% of the variance.

Figure Three



But the real test of interest to us is what happens when we separate out those countries with at least a minimal semblance of liberal democratic regimes.⁸ Is this general “Wagnerian” relationship stronger or weaker than in the larger sample with all kinds of regimes included? Figure Three provides a very compelling answer: democracies (excluding the USA outlier) are even more likely to have higher levels of public spending than non-democracies. The correlation leaps to .880 and this predicts over 75% of the total variance. Among non-democracies/autocracies, the correlation is virtually nil: .148 which “explains” about 2% of the variance. Therefore, we can confidently conclude - based, admittedly, on a cross-sectional analysis at one point in time - that **regimes with regular elections between competing parties and other political freedoms will (eventually) produce stronger (or, more accurately, better funded) states.** This does not tell us how they get to this relation or what are the causal mechanisms that produce it, but the correlation is indisputable and contrasts strongly with same relation between autocratic polities.

⁸ Which we can do thanks to the dichotomous measure developed by Adam Przeworski and ... (source)

IV. COMPARATIVE ANALYSIS #2

Democracies depend on the consent of their citizens - actual or implied. They provide a variety of mechanisms whereby individuals and organizations within them can express their support or rejection for political leaders and their policies. Often, this consent and dissent requires no participation. Citizens can passively “go along with” what politicians do or propose to do, and leave the real work to their representatives. Deciding not to vote (something which more and more citizens are doing) does not necessarily indicate a rejection of the existing regime or democracy in general. It can be interpreted as an expression of “free-riding” in which they are content to go along with the choices made by others. For example, Switzerland is the country in Europe with the lowest persistent level of voter turnout - and this same country in national surveys reports the highest persistent level of satisfaction with their government.

However, when it comes to certain policies for extracting resources directly from citizens, democracies require some minimal active consent from their citizens. These persons and firms have to report their income, fill in complicated forms and make explicit transfers of money to the state. Therefore, in theory, democracies should have an advantage in strengthening the resources of their respective states when it comes to so-called direct taxes. Any regime can hide away extractions from their subjects in a myriad of indirect ways; democracies should be better at doing this directly.

Thanks to an extensive data set of the International Monetary Fund, we know how all world governments extract their resources. And we can break this down and discover the proportion of total revenues that come from direct taxes on persons and firms.

Our first finding concerns the relationship between all of the world’s polities and the composition of fiscal means. There is a positive general relation between GDP per capita and the proportion of state revenues from direct taxes on persons and firms: .357 (Pearson’s R), although this is not particularly significant and predicts only 13% of variance. If one selects out those polities that were democratic (ca. 1980) - as we did above - the correlation this time does **not** improve. It remains the same (.356), indicating that, contrary to expectations, democracies were not more successful in extracting their resources directly from citizens and firms.

Why this “non-finding” is the case could be due to our lumping together citizens and firms. In recent years, the globalization of financial flows on the one side and of trade relations on the other has made liberal democracies increasingly resistant to taxing firms since this may cause them to out-source or even move production to another country. Firms have also become more and more adept at hiding their profits in overseas tax havens. Another factor could well be the extraordinary success that European democracies have had in raising state revenues through the Value-Added Tax, which is indirect. Whatever the reason, the present findings do challenge one key assumption linking democracy to state capacity, namely, that depending more on citizen consent and being therefore more legitimate, it will be easier for this type of regime to extract revenues directly from citizens and firms.

V. COMPARATIVE ANALYSIS #3

At this point, we introduce two major changes in our strategy of analysis: (1) we reduce the universe from all polities in the world ($n = 163$) to just those that have made some recent attempt at getting rid of autocracy since 1974 ($n = 111$); and (2) we can use much more sophisticated and multi-dimensional indicators of both our independent and dependent variables. Thanks to the effort of the Bertelsmann Stiftung and its Transformation Index, state capacity has been decomposed into five separate dimensions and then re-composed into a single composite index which they call “Management

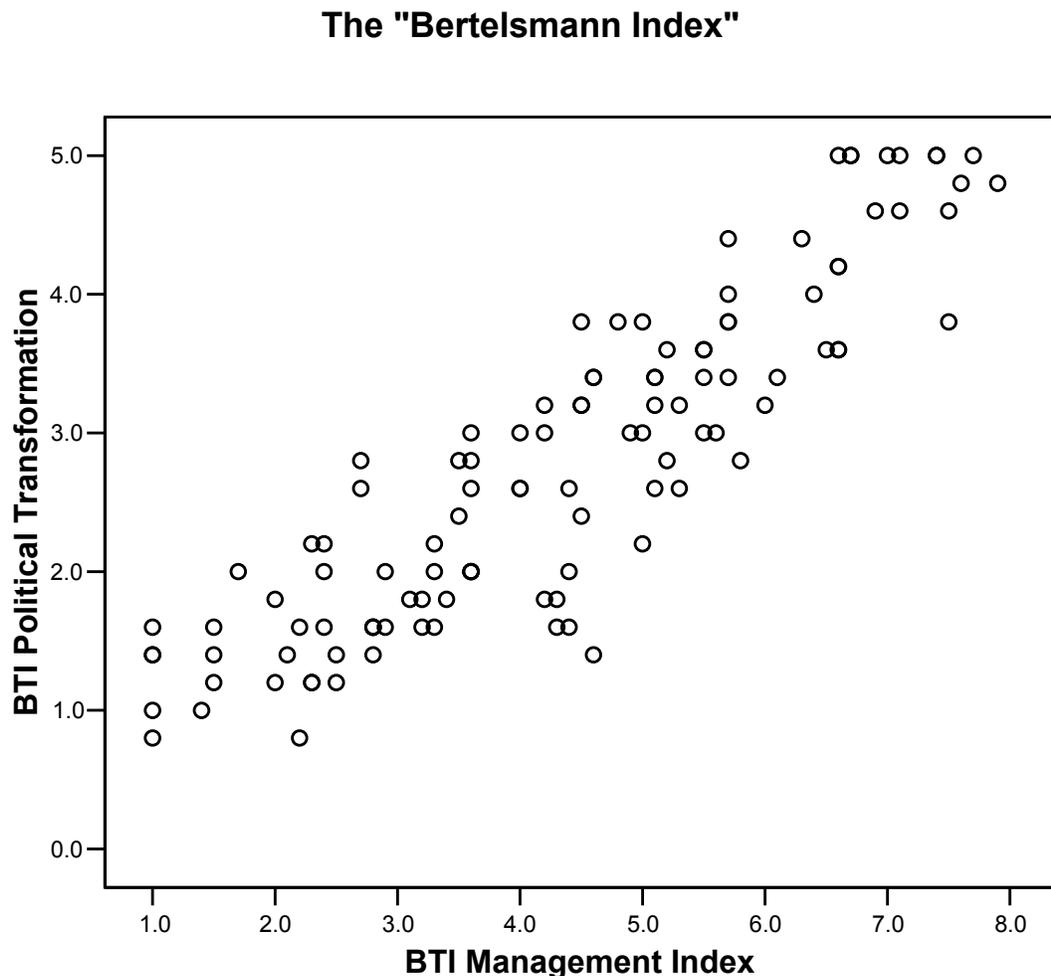
Performance.”⁹ In principle, this should be vastly superior to our primitive use of state revenues - provided that the components are theoretically valid and independently scored. Similarly, their Transformation Index includes five dimensions of regime change - most of which capture key aspects of the democratization process.¹⁰ The higher the aggregate score on this variable, presumably, the greater has been the progress of the country in consolidating some form of democracy. This means that we can shift from the simplistic dichotomous indicator we have been using when covering all polities to one that allows us to make more discrete judgements along an ordinal scale. We are still regrettably confined to analyzing the strength of cross-sectional static associations, since the Transformation Index has only been calculated for a single point in time (ca. 2000).

Our central questions has, therefore, become whether during this recent period those polities that have made the most progress toward democracy have also made the most progress toward improving the “management capability” of their respective states.

⁹ Those dimensions are: (1) Reliable pursuit of goals; (2) Effective use of resources; (3) Governance Capability; (4) Consensus-building; (5) International cooperation.

¹⁰ These dimensions are: (1) Stateness; (2) Political Participation, (3) Rule of Law, (4) Institutional stability; (5) Political and Social Integration.

Figure Four



The answer according to Figure Four is a resounding “Yes!” The measure of association between the two variables is a very high .897.¹¹ This would confirm the hypothesis that democratization and state capacity are closely associated - even, in the relatively short run - and this is true whether the *ancient régime* was communist or not.¹² What it does not tell us, however, is what we really want to know, namely, the direction of causation. Is it improvement in state capacity that helps in the consolidation of a liberal democratic regime? Or, is it success in agreeing upon and sticking to a common set of democratic rules that promotes management performance on the part of state institutions?

Indeed, the correlation between the two is so high that it leads us to suspect both the conceptualisation of the variables and the devices used to measure them. It just could be possible that, since the Bertelsmann group used the same experts to arrive at both scores, these “objective observers” were simply incapable of distinguishing between the capacity for managing a political transformation

¹¹ Given the ordinal nature of the two variables, we have used Spearman’s Rho rather than the more usual Pearson’s Product Moment Correlation Coefficient.

¹² In fact, the Spearman’s Rho for the democratizing post-communist countries alone (n = 27) is .949, even higher.

and the capacity for managing a state. Perhaps they instinctively made the (erroneous, in our view) assumption that “all good things must go together.”¹³

At this point there seems to be little utility in dividing up this set of comprehensive data (as we had intended) into various types of transformation or, what has elsewhere been called, “modes of transition.”¹⁴ We had thought of eliminating all cases in which democratization had followed upon violent civil conflict or international war (e.g. most of the Balkan countries) or in which it took place in new political units that had seceded from previous autocracies (e.g. Moldova, Georgia, Armenia et al.) or in which no significant initial attempt to democratize had been made (e.g. Belarus, Uzbekistan, Turkmenistan, Azerbaijan, or Kazakhstan), but the ‘tightness of fit’ in Figure Four plus the small number of cases made this purposeless.

V. COMPARATIVE ANALYSIS #IV

Finally (and circuitously), we have arrived at what we hoped would have been the core of our analysis: What has been the impact of democratization upon state capacity in the post-communist polities of Central & Eastern Europe and the former Soviet Union?¹⁵ Manifestly, we have reason to expect a much greater impact - whether positive or negative - if only because the previous state (or, better, party-state) occupied a much more prominent position in the maintenance of social order, in the control of economic production and in the nature of political domination. However, we must be cautious in assuming that most of whatever impact we find was due to democratization alone. All of these countries underwent either dual (economy & polity), triple (economy & polity & international alliance) or even quadruple (economy & polity & international alliance & national identity) transitions. Much of whatever we observe empirically could well have been due, not to political regime change, but to market mechanisms driven by the switch to capitalism, conditionalities imposed by external actors, or difficulties intrinsic to the creation of a new set of state institutions. In short, a lot is going to be changing simultaneously in this group of countries and it will not be easy to separate the discrete effects that democratization as such has produced.

Moreover, in many instances, the previous communist state was itself already in crisis, losing material revenue, administrative capacity, coercive potential and political legitimacy. Indeed, it was because of these very weaknesses that regime transformation became an option.

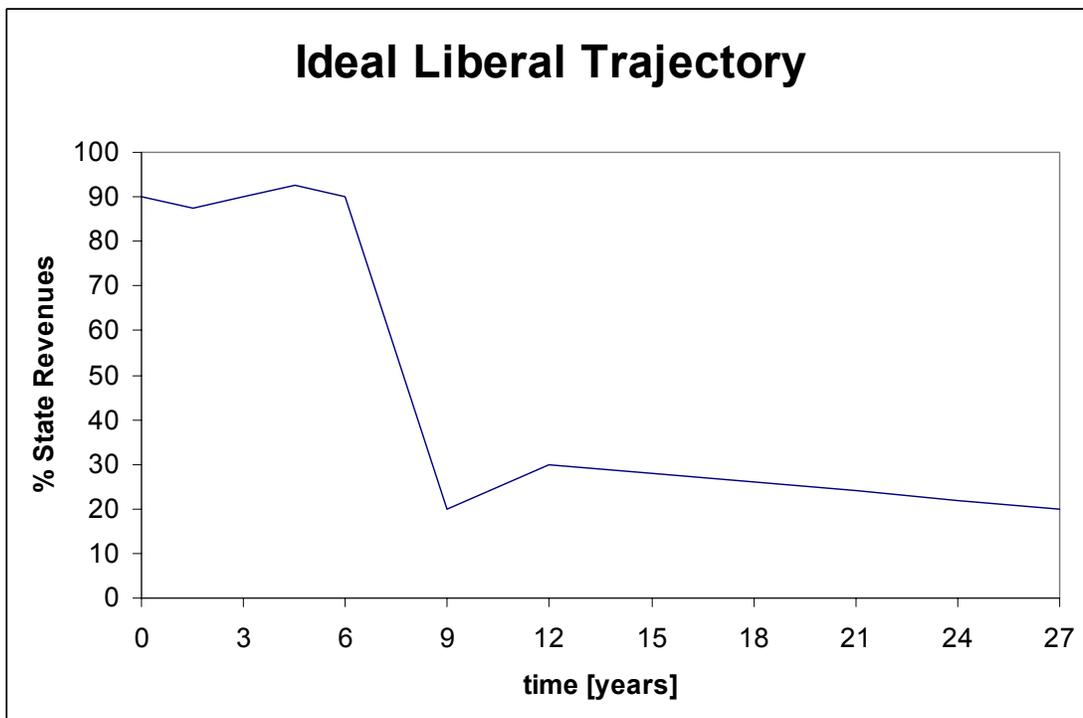
To the extent that we can obtain the necessary time-series data, we would expect it to conform to one or another of the following patterns. All presume that during the transitional period state capacity will decline - and decline more so in cases of post-communist democratization than in the aftermath of bureaucratic authoritarian capitalist dictatorships. To repeat a frequently used metaphor, we expect all of these post-communist transitional countries will have to go through a “Valley of Tears” during which things have to get worse before they can stabilize or get better. The major differences concern the depth and the timing of subsequent recovery of this unavoidable decline.

¹³ The tightness of fit persists even if one uses only their single indicator for “Governance Capacity” – one of the five that go into their aggregate “Management Index.” There, the Spearman’s Rho falls only slightly from .897 to .832.

¹⁴ Article by Terry Lynn Karl & Philippe C. Schmitter

¹⁵ We have excluded from this part of the analysis any detailed consideration of the component states of the former Yugoslavia, not only because its “brand” of communism was significantly different before the transition, but also and mostly because of the internecine war that so greatly affected the outcome (except for Slovenia).

Figure Five



According to the ‘liberal’ model in Figure Five, state capacity will (and should from a normative perspective) decline very rapidly under the effect of a deliberate “shock treatment.” This is designed to be most effective in destroying the sectoral and clientelistic relations that tended to form around state socialist ministries and agencies, thereby, laying the foundation for a more distanced and pluralistic relation under the ensuing liberal democracy. Not only should this help to stabilize competitive political institutions, but it will also (it is argued) encourage a higher, long-term rate of economic growth since the “distributive coalitions” embedded in the *ancient régime* will have been dissolved.¹⁶ Once the transition period has finished, a trend toward declining state capacity should set in as “private-consuming’ citizens assert their preference for less state-provided goods and services.

¹⁶ Reference to Mancur Olsen

Figure Six

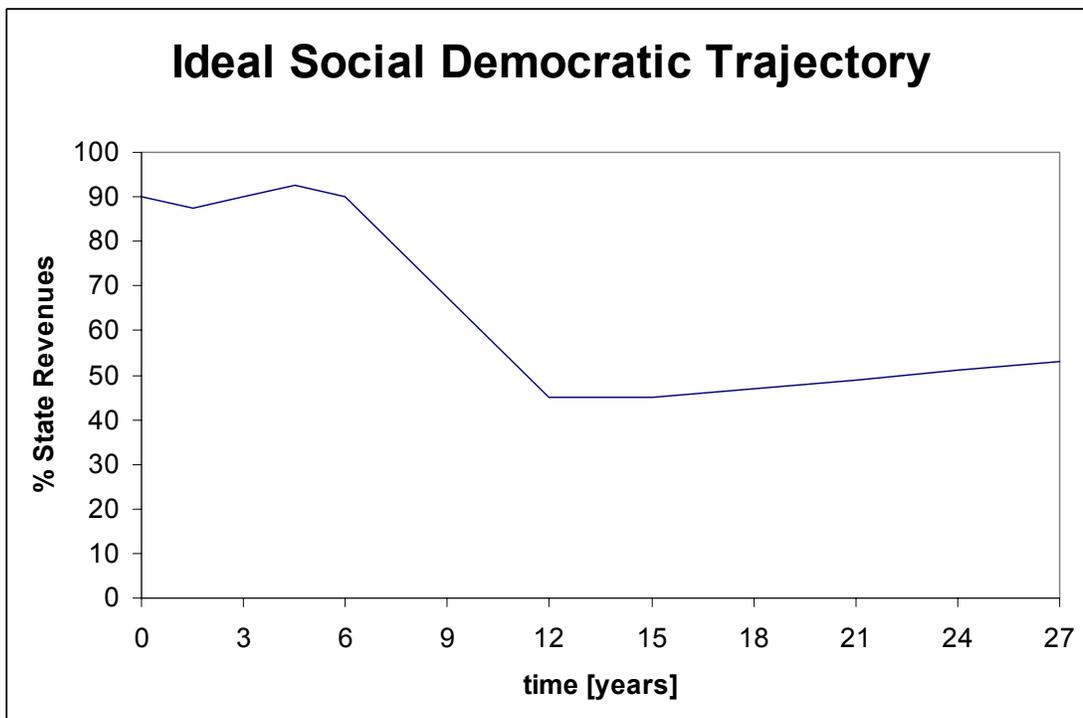
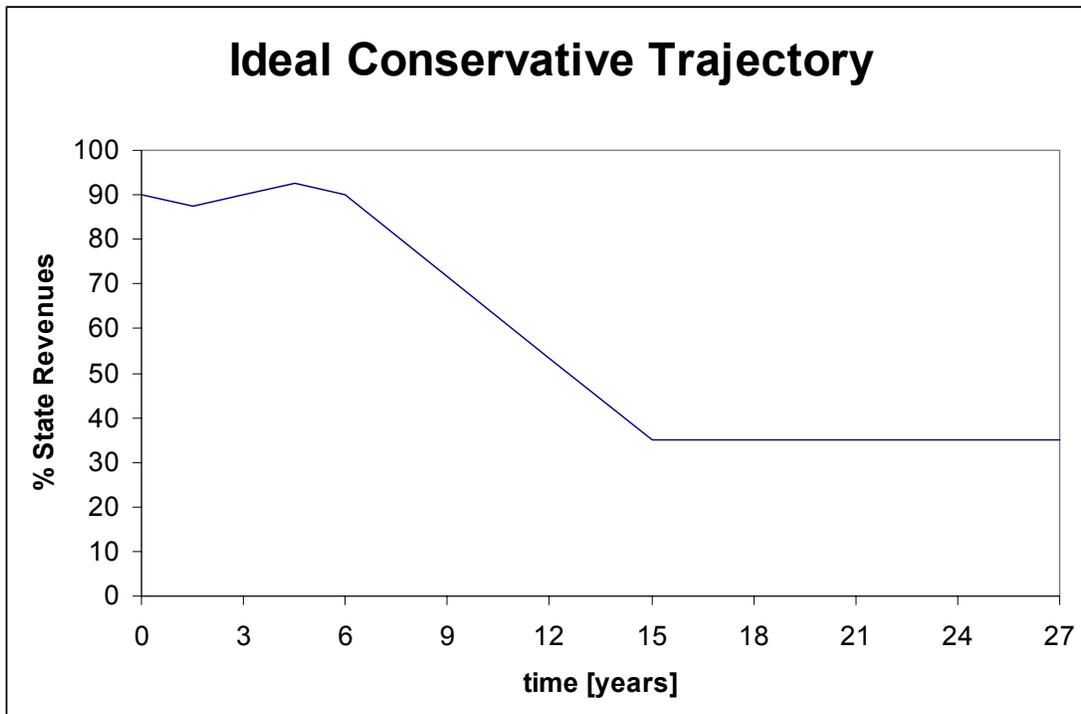


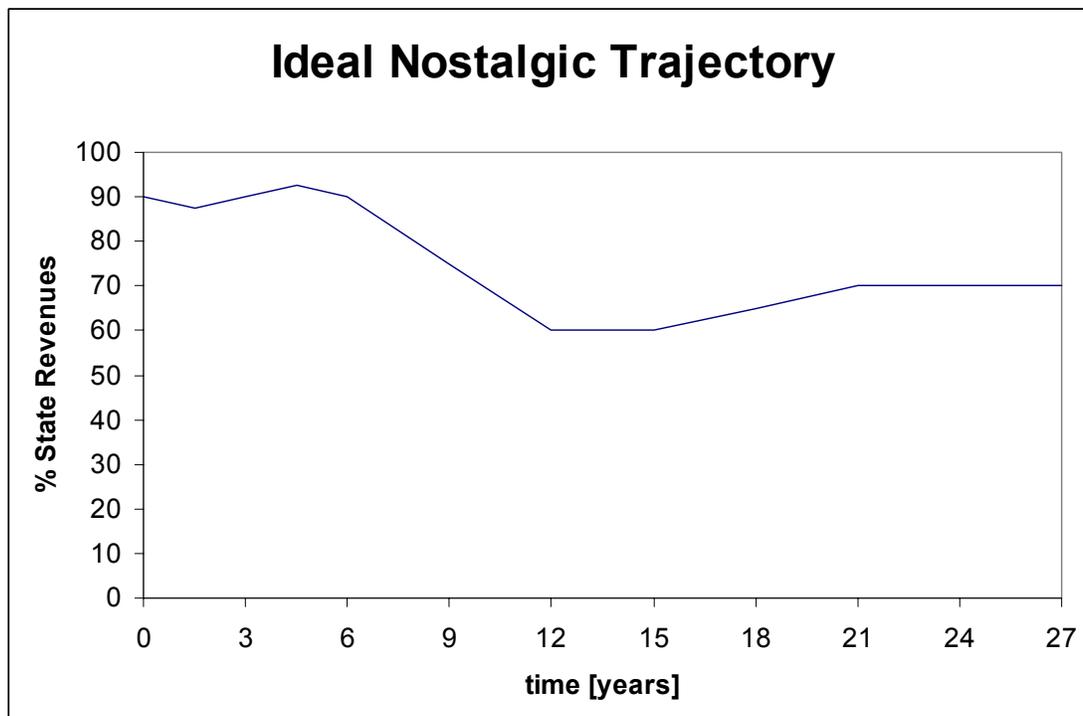
Figure Six is our representation of what a ‘social democratic’ perspective might predict/advocate. State capacity would decline but only moderately in the immediate aftermath of the democratization ‘treatment,’ but take longer to reach a stabilization point once democracy has been consolidated. This would permit a higher degree of stability and continuity in the relations between parties, interest groups (especially trade unions) and state organizations, enhancing the probability for corporatist concertation in key policy arenas - which, in turn, will translate into a better “mix” of macro-economic outcomes, as well as greater social peace. At the end of the transition, one would expect that, with development, the public’s intrinsic propensity for desiring more public goods will result in a gradual strengthening of state resources and activities.

Figure Seven



If conservatives are correct in their expectations about state capacity in post-communist polities, it should decline less rapidly than liberals would prefer, but more rapidly than social democrats would - based on their predominant fear of social disorder and political discontinuity. However, once reliable and mutual consensual institutions are in place, they would predict/prefer that state capacity be stabilized at a level higher than that of liberals and lower than that of social democrats, and that it should remain constant over time. To this end, it is important politically that a 'centripetal' party system come to dominate the electoral process; whereby, whatever party wins it will not substantially increase or decrease either state capacity or the scope of public policy.

Figure Eight



Finally, virtually all former communist regimes will have a substantial number of ‘nostalgics’ who would prefer to have the least possible decline in state capacity (and the least imaginable degree of turnover in state personnel) and the fastest possible return to previous policies. The ‘transition’ to democracy should be in name only and as soon as possible a dominant party regime will be put into place, rendering all subsequent elections predictable. In this case, one should expect state capacity to be restored to its previous trajectory, even if that was in decline.

On the face of it, none of these ‘models’ can be excluded. Given the extraordinary diversity of “*après communismes*,” the politicians and parties that have come to power cover almost the entire spectrum of ideological and programmatic possibilities. Hardcore liberals dominated the transition in the Czech Republic; hardcore nostalgics did so in Belarus (and most of Central Asia). Elsewhere, one finds conservative liberals and social democratic ex-communists coming to power initially - and then losing the subsequent elections! With the exception of the nostalgics who have entrenched themselves in power, the safest generalization one can make is that none of the tendencies noted in the figures above have managed to remain in office for a sufficiently long period to determine by themselves the evolution of state capacity.

[At this point, we have to confess our inability (so far) to obtain even the most primitive data necessary to test for the presence of the ‘profiles’ of transitional state capacity outlined in the above figures. The most likely source should be the EBRD but its data are still insufficient for our purpose.]

VI. SEVERAL EMPIRICAL CONCLUSIONS

1. State capacity (or, better, the resources necessary for state capacity) tends to increase with economic development and it does so even more significantly under democratic regimes. This correlation, however, tells us nothing about the causality involved.

- a. Since democracies are based on organized and regular competition between political parties, interest associations and social movements, this should compel them to appeal continuously to those marginalized or exploited groups in society who typically are more in need of publicly provided resources.
- b. Or, since state agencies initially successful in capturing resources will be able to use these resources to seek further resources - regardless of the need or demand of the population or competition between politicians - the “rent-seeking” and “self-serving” behaviour of bureaucrats will be encouraged and protected by democratic regimes.

2. In societies undergoing transformation from autocratic rule, the more quickly and thoroughly they succeed in consolidating some form of democracy, the more likely they will have also succeeded in increasing state capacity. Again, this finding tells us nothing specific about the causality involved.

- a. The discovery and institutionalization of democratic rules for competition and cooperation between opposing groups provides a stable political context and generates level of mutual trust that positively “spill over” to the agents and agencies of the state. More specifically, competition between potential office-holders plus freedom of the press and information in general will identify and exorcize elements of corruption and inefficiency in state institutions.
- b. Or, before a democratic regime can be consolidated, the unit within which it operates, i.e. the sovereign national state, must be consolidated and this cannot be done democratically. Therefore, only by some independent process(or processes) such as war, external threat, inter-state competition, foreign ‘conditionality’ or just plain imitation of more successful other states can this be accomplished.

3. In the case of recent post-communist transitions from autocracy, the relationship between democracy and state capacity should be particularly problematic, both because it should be more difficult to consolidate a subsequent democracy and because the initial decline in state capacity should be much greater. As a consequence, these dual processes of transformation should create a “Valley of Tears” during the transition period, especially in terms of state capacity, that is harder to traverse than when democratisation occurs in a state that is embedded in a capitalist economy.

- a. Both the depth and breadth of this “Valley,” however, differ a great deal in extent across post-communist experiences.
- b. They were barely noticeable in the countries of Central & Eastern Europe and in the Baltic Republics of the former Soviet Union and it is tempting to attribute this relative success to the ‘anticipatory’ effect of membership in the European Union and, later, to the actual mechanisms of accession to this regional organization. Also, these are countries whose previous national borders and identities were relatively well-established (with the exceptions of Slovakia and the Czech Republic).

- c. They have been especially acute in the other, newly independent, republics of the former Soviet Union. In such cases as Belarus and, perhaps, Kazakhstan, Turkmenistan and Uzbekistan where no initial attempt was made to democratize, state capacity seems to have remained high. Interestingly, in intermediate cases where initial democratization did occur, but subsequently degenerated into increasingly less competitive regimes (e.g. Georgia, Ukraine, Kyrgyzstan), popular uprisings emerged largely in reaction to decline in public services and state corruption.

VII. ONE (MORE SPECULATIVE) THEORETICAL CONCLUSION

Since the beginning of this essay, we have assumed that the capacity of a given state depended on the generic nature of the regime that governed it. And we have discovered that democracies seem to have governed in such a way that their respective states acquired a stronger and more reliable resource base. However, before congratulating ourselves too much on this normatively comforting finding, let us challenge our most important (if implicit) assumption - namely, that the nature of government itself has remained unchanged, i.e. democracies in order to govern effectively and to perform satisfactorily need the same magnitude of resources and the same kind of contributions and consent from their citizens as they did in the past. What if today's democracies - both archeo- and neo- - needed different resources and contributions? What might that do to the democracy-state capacity nexus?

There is more than a hint that this might be the case in the burgeoning (if diverse and confusing) literature on **governance**. It has become fashionable in both politics and political science to avoid any mention of the concept of "state capacity" - as well as that of "government" - and replace both with something called "governance." The most desirable relation between democracy and the state is no longer said to be "good government," but "good governance" - if these accounts are to be believed. Even more provocative is the notion that it is not the consent of the citizens that is necessary, but that of the 'stakeholders,' i.e. only those most directly or critically affected by the specific issue at hand. Were this merely a passing fashion (re-invented initially and subsequently promoted by the World Bank), one could safely ignore it, but our suspicion is we cannot afford to do this because 'governance' may reflect a substantial and enduring change in how states operate in the contemporary policy environment and, hence, how we have to assess their capacity to perform functions/tasks.¹⁷ Let us begin with a very generic definition of the concept:

Governance is a method/mechanism for dealing with a broad range of problems/conflicts in which stakeholders (state and non-state actors) regularly arrive at mutually satisfactory and binding decisions by negotiating with each other and cooperating in the implementation of these decisions.¹⁸

Its core rests on **horizontal forms of interaction** between actors who have conflicting objectives, but who are sufficiently **independent** of each other so that neither can impose a solution on the other and yet sufficiently **interdependent** so that both would lose if no solution were found. The actors involved in governance are **state agents**, but also spokespersons for non-profit, semi-public and, at least, semi-voluntary **non-state organizations**. It is the embeddedness of these latter organizations

¹⁷ One reason to suspect the generic importance of 'governance' is the fact that discussion about it has not been confined to the manifestly corrupt and "failed" states of Sub-Saharan Africa (the topic of the original World Bank Report), but has spread to cover some of the most honest and best performing states in the world, i.e. those in Western Europe. The European Union has recently issued a White Paper officially espousing the concept and applying it to its peculiar way of "governancing" its member states. Citation.

¹⁸ My article in Heinelt & Grote volume

into something approximating a **civil society** that is supposed to be crucial for the success of governance in democracies. Therefore, they share a common set of norms and experiences that antedate their participation in any specific governance arrangement. Under these conditions, they do not have to be equal in their size, wealth or capability, but they have to be able to hurt or help each other mutually, i.e. they have to have a determining stake in the specific policy issue under examination.

Also essential is the notion of **regularity**. The participating organizations interact not just once to solve a single common problem, but repeatedly and predictably over a period of time so that they learn more about each other's preferences, exchange favors, experience successive compromises, widen the range of their mutual concerns and develop a commitment to the process of governance itself. Here, the "code words" tend to be **trust** and **mutual accommodation** - specifically, trust and mutual accommodation between organizations that effectively represent more-or-less permanent social, cultural, economic or ideological divisions within the society.

Note also that governance is not just about **making decisions** *via* negotiation, but also about **implementing policies**. Indeed, the longer and more extensively it is practiced, the more the participating organizations develop an on-going interest in this implementation process since they come to derive a good deal of their legitimacy (and material resources) from the administration of mutually rewarding programs.

This mode of problem-solving/conflict-resolving is alleged to be quite different from the classical hierarchical authority of the **state** that is supposed to be capable of imposing its decisions upon the recalcitrant parties. It is the legitimacy of public officials and the ability of citizens to gain "fair" access to them in a democratic regime that should ensure a successful and mutually satisfactory allocation of scarce resources. The implication of the literature on governance is that states have lost this capacity because in situations of globalized interdependence and issue complexity its agents simply cannot capture and process the information necessary to find such solutions/resolutions. If this were true, our indicators of state capacity would risk being irrelevant since, no matter how many material resources, what mode of extraction or how much time they dispose of, democratic politicians and state agents can only be effective if and when they forge regular cooperative exchange relations with organizations in civil society. It is definitely not enough to have won an election and assumed office with citizen support. That is too diffuse (and probably fickle) a basis for legitimacy, and it does little to provide the required specificities of information. What is needed to bring the state and the regime together effectively is a symbiotic combination of specialized experts and dedicated representatives, all of whom have some demonstrable stake in seeking a satisfactory solution. If they succeed in doing so, the passive, 'free-riding' citizenry will be grateful for their joint efforts and reward them with voluntary compliance. NB how much the notion/ideology of 'good governance' changes both sides of our equation: (1) the state operates effectively in a different fashion and with different resources; and (2) the democracy narrows its conception of the effective citizen to include only those with a direct stake in the game. Needless to say, the debate over 'good governance' has just begun and it is far from clear whether even the best versions of it will be successful in converting the standard operating procedures of state agents and the normative expectations of democratic citizens to accept its decisions as legitimate and binding for everyone.

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