Communist and post-communist states, and path dependent political economy

Neil Robinson
Lecturer, Department of Politics and Public Administration, University of Limerick

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Department of Politics and Public Administration
University of Limerick
Limerick, Ireland

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INTRODUCTION

Continuity, as much as change, has marked the political economy of the former Soviet states within the Commonwealth of Independent States (CIS). Empirically, the tendency toward continuity is easy to record, since it can be seen in the delays and failures of marketization. Accounting for continuity is harder. Political factors have increasingly born the main weight of explaining why some states have lagged in the process of transformation. Whilst this a welcome development, the conception of politics and the range of variance explained leave much to be desired. Where comparison covers both Eastern Europe and the CIS, politics is reduced to institutional design – the executive/legislature design and electoral rules – and it is assumed that path dependence follows from choices made at the onset of reform path (Hellman, 1998; Fish, 1998). This discounts the influence of the communist past and the importance of political factors beyond the organization of central government, particularly the influence of structural factors and the incentives that they create. Alternatively, small-N comparative studies generally do not cover both Eastern Europe and the CIS since they concentrate on clusters of states such as Poland, Hungary and the Czech Republic, or single case studies (cf. Stark and Bruszt, 1998; Burawoy and Verdery, 1999). The result of this is often that the past is often seen in very one-sided terms. Comparison of similar systems can often lead to structural phenomena being underanalyzed – again – since they are held to be constant across the small range of cases and are seen additions to the complex local patterns of interaction and power, rather than factors that might shape such interactions. The way that small-N comparisons of path dependency write phenomena such as global economy and the state out of the picture make it difficult, as Böhle (2000, p.246) has argued, to be sure that small-N path dependency arguments have properly identified 'which elements of the past matter, and exactly how they matter'.

This paper does not dispute the crucial importance of politics in explaining the variety of post-communist outcomes, and in particular, the relative backwardness of the CIS in comparison to Eastern Europe. However, it argues that what constitutes political influence upon post-communist political economy needs to be broadened out. It argues that a crucial factor influencing reform has been the type of state formed by the interaction of communist system and the international economy before the collapse of communism. The paper defends this position by first, defining ideal-type classifications of state that can be used to distinguish between the classic Stalinist system, the evolving communist state, and the object of market reform. It argues that different forms of state emerged during the communist period as elites tried to balance the failings of central planning and the classic form of communist state with external assistance. Some of these forms of communist state produced conditions that made them amenable to marketization through their interaction with the global economy. These conditions were more prevalent in Central and Eastern Europe than in the CIS. As a result, the possibility of market change has been greater there than in the CIS since elites are more vulnerable to pressure from their domestic populations and external agencies, and have incentives to lead reform. In the CIS, where the state evolved more slowly, change has been more sluggish. Although there has been variance in patterns of change across the FSU, the lack of evolution in the past has enabled a far greater degree of continuity at the expense of economic and political pluralism.

Table 1 State types

State type	Main source of revenue	Autonomy	Constraints on revenue generation
Property	State-owned property	Formally high, actually low	Formally low, in practice high due to control problems
Rentier	External sources	High	Externally generated
Tax	General tax of independent economic activity	Embedded and relative	Political as well as economic

IDEAL-TYPES OF STATE, COMMUNISM AND THE POST-COMMUNIST POLICY AGENDA: PROPERTY STATES, RENTIER STATES AND TAX STATES

Although the importance of the state in transition has become increasingly apparent over the last decade, conceptualizations of the communist and post-communist state as an explanatory variable have not been developed. One reason for this that the classificatory schemas of communist studies were concerned with regime definition, rather than with the power of the state *per se*. The usefulness of concepts derived from communist studies is therefore purely historical since they do not describe variance over any longer time; once the regimes that they described collapsed so did the explanatory potential of concepts from communist studies as diverse as totalitarianism (at one end of the spectrum) and institutional pluralism (at the other). Concepts of state and state power that can help to re-establish the state as a conceptual variable must be able to work across the historical divide to account for both continuity and change.

Given the changing nature of institutions and purposes, the best way to look at change over time is to concentrate on functions of the state. These can be divided up in many ways, but its most direct economic functions are redistributive and involve taxation and resource allocation. Taxation and resource allocation can be achieved in a variety of ways and through a variety of mechanisms. In essence, these can be reduced to revenue generation through the general taxation of independent economic activity, or through appropriation of revenue taken by the state by right due to ownership. The latter type of revenue collection can take two forms: it can either be taken directly from the appropriation of revenue from domestic producers who work the economy on behalf of the state, or it can come from external sources. These external sources can be trade revenues from the sale of resources owned by the state, or grant aid from other states.

The latter distinctions are fundamental to the form that the state takes and correlate significantly with the form in which revenue is taken. These are summarized as ideal types in Table 1. Ideal-typically, states that take revenue as property-owners from domestic economic activity are property states. States that take revenue from external sources are rentier states, although there is an important distinction to be drawn between those that take rent from the sale of commodities that they own, and those that take rent through aid and external subsidy and are therefore constrained by the wishes of their benefactors. States that take revenue from independent economic activity in monetary form are tax states.

Rentier (especially the commodity traders) and property states are alike in that they have a high degree of autonomy from the societies that they govern by virtue of their taking revenue as a right. However, under certain conditions, the autonomy of rentier states is higher than that of property states and the rate of taxation that they take from domestic sources is lower. Where rentier states take rent from the export of a small range of commodities, they are more minimally involved in the production systems of their domestic economies, and classically, as result of low domestic taxes, are not responsive to domestic pressure. Indeed, society is a supplicant to the state since access to external rents is conditional on access to state institutions. This leads to patron-client relations as officials use externally generated rents to insure political loyalty and creates forms of patrimonial regime in which office holding is proprietary. The interest of officials in the future of the domestic economy is also minimal since extracting resources from society is not the chief means that the state has of gaining resources that can be used to barter for political support. There is, as a result, a tendency in rentier states to allow domestic economy to stagnate relative to economic competition. This has relatively little impact on the state's ability to collect resources. The constraint on revenue collection for rentier states is set externally, either by market prices for the resources that they sell, or politically by the willingness of other states to transfer resources to them in the form of aid and loans (Crystal, 1990; Ross, 2001, pp.329-32; Shambayati, 1994; Yates, 1996).

Property states, on the other hand, are autonomous in that they take revenue as a right, but are faced with principal-agent control problems. Property states are desirous of fostering economic growth in order that they may increase the surplus that they take from society. This growth may be insured by coercing agents that manage property to use it in ways that produce growth. This imposes a limit to growth since the costs of regulation may be high and coercion can have a negative effect where it destroys trust and heightens uncertainty. The alternative is for the state as principal to negotiate for political support from its economic agents. These negotiations weaken the autonomy of property states in practice in the economic sphere since they restrict the demands that it can make. The autonomy of tax states is always relative since the state is too a greater or lesser extent embedded in the community that it governs; the tax state 'can never be its own end but only a machine for those common purposes' that individuals 'are unwilling or unable to take over' (Schumpeter, 1991, p.110). All forms of state have limits on the amounts of revenue that they can raise (Olson, 2000). In the tax state, these limits are not just economic in that both indirect and most direct taxes have a maximum yield beyond which the revenue of the state will fall, but political, in that the state's coercive power to extract will be limited by its regard for others' property rights. Where this respect is breached, the state's tax base will shrink, as economic activity will decrease. The tax state is thus the antithesis of the property state. Where the property state fuses economy and politics so that politics drives economic activity and sets it objectives directly, the tax state regulates economic activity indirectly through the system of revenue collection and under political constraint.

Central planning created the closest thing in the modern era to an ideal-typical property state. Revenue was derived from property owned by the state in the form of profits from state-owned enterprises and kept high through the regulation of wages and consumer prices by the state; the government basically and according to need set the price of goods higher than money wages and took the difference as tax (McKinnon, 1992; Olson, 2000). Tax payments were thus made between branches of the state in the main; the fiscal survival of the state did not depend on the state's capacity to appropriate surplus through taxes on the private sector. The system of taxation in the Stalinist system was thus largely implicit and potentially the state was able to manipulate prices and wages to generate high revenues. The fact that money did not play a true accounting function as prices were arbitrarily determined by central planners and there were strict political limits to what could be done with money generated by enterprises and individuals contributed to this significantly by enabling a greater manipulation of wages and consumption. This form of taxation generated a large amount of revenue and investment for a time, but at the cost of low total factor productivity. This low total factor productivity, and the other problems associated with planning, meant that overtime the economy stagnated so that the state's ability to generate large amounts of revenue declined. This tendency of revenue to fall overtime was compounded by collusion between bureaucrats and the existence of soft-budget constraints, both of which negatively affected state finances by creating a situation in which a high level of revenue had to be diverted to combat the misappropriation of state resources, or by preventing the maximization of revenue generation through the promotion of efficiency (Urban, 1985; Kornai, 1986). Coercion protected the state's ability top extract resources, but it was not enough to resolve all of the principal-agent control problems created by the vastness of the state's holdings. As a result, not all decisions that were made in the economy were economically rational. The setting of prices and the shortages that resulted from this and from breakdowns in production lead to administratively generated rents, which could be used to buy political support at the cost of economic efficiency (Lazarev and Gregory, 2003). This was, however, self-defeating. The inefficient allocation of resources meant that growth slowed and the amount of resources available for reallocation shrank relative to demand. In turn, this threatened a net reduction in political loyalty amongst the population at large. Moreover, those actors who did not share in the exchange of gifts for loyalty tried to appropriate a part of administratively generated rents for their own use. Both of these problems exacerbated the problem of investment hunger that was intrinsic to the communist order due to its desire for modernization and the absence of self-restraint on demands for investment such as exist in capitalist economies where investment, in the form of borrowed money, has to be repaid through the generation of profit (Kornai, 1992, pp.162-3). Shortages of investment resources delayed the completion of investment projects and led to high investment levels at the cost of consumption and general economic performance (Hewett, 1988, pp.89-90).

Problems of control and associated economic dysfunctions led the communist state to evolve, a point we will return to below. However, even when there was evolution, the fact that central planning remained the main mechanism for distributing resources and collecting revenue meant that communist systems never totally escaped from some conformity to the property state ideal. Ending central planning and recreating private enterprise after the collapse of the party-state as a political regime meant creating a new form of state and revenue collection. Creating the outlines of a tax state has been an aim and aspiration of reform policies in the post-communist world. This desire was heightened by the aspiration to democracy, since the consolidation of democratic governance requires economic pluralism to support political pluralism (Linz and Stepan, 1996, pp.11-13). Property and most forms of rentier state do not support economic pluralism, since political forces dominate the distribution of resources and pluralism is consequently curtailed. Tax states may also have considerable resources to distribute, and this may have major economic affects. However, this tends not to inhibit economic pluralism since the amount of revenue that they can take and hence redistribute, is constrained by the effect that tax has on private economic activity. Finally, moving toward creating tax states was a strategic matter for post-communist politicians. Collecting revenue in the form of money raised from private economic activity instead of from ownership meant changing the relationship that money had to economic activity under central planning. Collecting revenue from private economic activity involves the creation of money as a universal, transferable, transparent means of exchange, and erodes soft budget constraints and the use rights to property that managers and political appointees hold because of their office. Moving toward the tax state ideal thus involved breaking down the power of old elites to some degree, and at least as a construct of economic culture, and counterbalancing it with both new social groups who had access to money, and the state, which controls the production of money and its use through taxation (Woodruff, 1999). Redistribution of resources would not be achieved by manipulating prices as under central planning, but could be either direct, through state expenditure on welfare etc, or indirect through the setting taxes, interest rates and exchange policies. The constraints on political power and the revenue generating power of the state would thus change. Instead of being constrained by the problems of principal-agent control, the state would be constrained by the rights of economic agents to hold property (which sets an absolute level to taxation after all), and by the demands that would be made on the state by taxpayers for public goods.

A country's ability to move from something approaching the property state ideal after communism to something approaching the tax state ideal is influenced by the extent to which the property state was undermined under communism by the development of rentierist elements. The combination of property state and rentier models under communism created constraints on post-communist elites and incentives to change. The greater the extent of rentierism underpinning the property state, the more elites were dependent on maintaining resources flows from abroad to maintain social peace. This made maintaining the credibility of economic reform important so that access to aid and investment was not compromised. Moreover, the fact that rents were earned on a broad selection of goods in Eastern Europe provided for some basic economic pluralism. The more sources of rent in a country, the more they are likely to balance out patrimonial tendencies built on control over a single rent source. The more diverse trade was, the more competing sources of power emerge. Diversity also creates incentives to co-operate, insures a level political playing field in which the state provides pubic rather than private goods. Such a political arena can reduce the vulnerability of economic agents to changes in international markets and demand for their goods. The provision of public goods such as low inflation, efficient and equitable economic arbitration etc can help to balance international with domestic demand by creating conditions for domestic economic growth. The same is true of rent gathered in the form of loans and aid. The use of these is constrained, first, by lenders setting conditions of use and by their often-public nature. Public claims on these may not always be honoured or effective due to asymmetries in information and influence, but they provide more scope for the balancing out of patrimonial interests than rent from the trade of a narrow range of commodities. Second, elites are constrained in that they frequently need to be able to roll debt over or defer repayment. Consequently, they need to insure a degree of stability in order to avoid default. Finally, the liberalization of trade controls can amplify these effects. Those sectors of the economy that did not enjoy access to foreign markets were desirous of sharing the resources and potential to increase consumption that openness might bring. The prospect that they might lose through increased liberalization both through competition and because of the end of implicit subsidies provided via the redistribution of rent by central planners was hidden by the manipulation of domestic prices before the introduction of stabilization policies. The fact that there might be some penetration of international price incentives in to domestic economy would also lend weight to moves to collect taxes in money and the creation of money as a universal, transferable, transparent means of exchange.

Rentierism therefore created something akin to domestic constituencies for change and as a result neutralized the collective action problems of reform.[1] As a result, it also created the potential not only for moving beyond some approximation of the property state, but also for its own demise. Where rentierism was extensive and involved a mix of commodities and debt/loans, reform could be locked in as both state actors and economic agents would be unable to perpetuate rentierism as a source of patrimonial power. In this co-operation and in the breakdown of patrimonial power that it entailed, lay the seeds of new tax states. The demise of patrimonial power and the willingness to cede decision-making to the state in the hope that it might provide stability and insure access to resources were essential to the construction of state autonomy within new political limits. Material incentives created by the undermining of the property state form embedded the new state autonomy in social consensus – no matter how rudimentary – about change, and connected that consensus to material as well as emotive, anti-communist interests. Where development of rentierism was low or skewed towards rent from the sale of a single or small number of commodities, incentives are more likely to be to extend some form of patrimonialism in order to protect the riches that accrue from trade by buying loyalty. This was the case in parts of the FSU, although the fragmentation of the Soviet economic space has meant that there has not been a straightforward course to rentierism across the region, a point that we will return to below.

THE EVOLVING COMMUNIST STATE: THE PROPERTY/RENTIER MIX AND THE BASIC DIFFERENCES BETWEEN EASTERN EUROPE AND THE USSR

In terms of structural economic problems, the evolution of the communist state was uniform in origin but diverse in outcome. Evolution was stimulated by internal factors, the failings of central planning as a system of control, the buy-offs and inefficiencies that resulted from this, and in the case of the USSR in particular, the exigencies of military

[1] On these see Hellman, 1998; Robinson, 2002.

competition. Communist leaders were constrained both to maintain high levels of investment to maintain growth and to fund growth in consumption. The latter was necessary both for ideological and practical reasons; as socialism was constructed and consolidated, there had to be a material pay-off for to the population; practically some increase in the amount of resources allocated to consumption was necessary to create incentives, and in Eastern Europe in order to maintain social control (Bunce, 1985, pp.8-9).

The combination of investment hunger and pressure to raise levels of consumption meant that some way of compensating for the shortcoming of the property state model had to be found. Reform was one solution. This, however, was complicated and politically difficult, as first Khrushchev and later Gorbachev discovered. In between these efforts at change, it was administratively much easier to develop aspects of rentierism in parallel with the property state. This was administratively easy because of the way that the party-state controlled the articulation of their domestic economy with the global economy (Evangelista, 1996). The centralized nature of foreign trade administration meant that communist states automatically acted as rentier states, no matter what the structure of their trade with the outside world. Revenue from export sales went to the central foreign trade organization, with the government then deciding what to redistribute to producers. The potential for raising revenue through exports was also great because of the state's control over prices. This enabled them to manipulate the domestic costs of production to effectively dump goods on the world market and secure export income. Communist rentierism was very varied, however. There were differences in what was traded, and differences in the forms that rent took, with some state receiving both rent from ownership and substantial rent from aid and subsidies, and differences in security rents. Finally, communist states dealt with the problems caused by rentierism in different ways. These different strategies combined with the different forms that rentierism took created different social pressures and opened them up to different external pressures. In nearly each case, the major dividing line was between the USSR and the rest of the bloc.

The most obvious of these differences were in the rents generated by trade and security. All of the states of Eastern Europe took security rents from the USSR in that they did not pay the full costs of protecting themselves from the external security threat of capitalism. These security rents were generated by accident and design. Eastern European states had no incentive to contribute towards defence, and to structure their collection of revenue accordingly, since the USSR spent in excess of what was necessary to provide for security and because the system of collective security was imposed by the USSR. Moreover, Eastern European states could save on defence expenditure and take rent from the USSR in order to fund domestic consumption to avoid social unrest. They could therefore play off the USSR's contradictory desires for bloc security through military might and bloc security through systemic stability (Eyal, 1992, p.44; Bunce, 1992, p.14).

Differences in trade rents between the USSR and Eastern Europe were equally great. All communist states, by virtue of their ownership of production and control over domestic prices, took rent from foreign trade no matter what the commodities and the value added to them in production. However, there were very great differences in what states took rent on and the contributions of rent to national income. The first difference is

Table 2 Exports to the West in 1990 (% of total trade)

Commodity group	USSR	Eastern Europe
Primary Products	23.1	28.5
of which:		
Food	2.4	16.9
Raw materials (excluding fuels)	8.9	5.1
Mineral fuels	56.5	10.7
of which:		
Oil	40.6	5.6
Gas	11.7	0.1
Manufactures	14.4	60.0
Semi-manufactures	9.5	21.4
of which:		
Iron and steel	2.6	7.2
Chemicals	4.4	9.3
Machinery and transport equipment and goods		
of which:	3.4	13.6
Road vehicles		
Transport equipment	1.6	1.6
Specialized machinery	1.0	6.8
Industrial consumer goods	0.7	4.8
of which	1.5	25.0
Textiles	0.4	3.4
Clothing	0.0	9.8

Source: Lavigne, 1999, p.85

that the USSR was a source of rent for Eastern Europe. The extent to which the USSR subsidized its trade with Eastern Europe is contentious, but the USSR began to provide subsidies from sometime in the late 1950s as it charged low prices fro energy exports and allowed its terms of trade with Eastern Europe to deteriorate (Smith, 1992, pp.86-89; Bunce, 1986, p.12). Even when Soviet terms of trade with Eastern Europe improved in the late 1970s as the prices of energy rose, the USSR still charged under world market prices for exports to Eastern Europe (on average about 70-80 per cent of OPEC prices) (Bunce, 1986, p.17).

The second main difference between the USSR and Eastern Europe was in the structure of trade and its importance as a source of rent. These are summarized in Tables 2 and 3. The USSR's external trade was relatively uniform in that the bulk of its exports were and export revenue derived from the sale of energy abroad. The USSR had traded raw materials, particularly oil, for foreign currency revenue almost from its inception, but the extent of this trade was small until the 1970s. Then, as trade between the USSR and the outside world grew spectacularly, the USSR took advantage of high oil prices after 1973 to reap huge profits, using this money to fund consumption rises and cushion industry from change. Trade between Eastern Europe and market economies played the same function, but was of a very different structure, magnitude and impact. As with the USSR, the extent to which eastern European states traded outside of the communist bloc

Table 3 Exports and national income under central planning (%)

	USSR	Bulgaria	Hungary	Poland	Romania	Czechoslovakia
1967	3.9	28	40	20	17	30
1980	8	40	54	31	27	29
1986	8	42	58	32	20	32

Source: adapted from Lavigne, 1991, p.14

increased in general from the 1960s onwards. This was in part inspired by the USSR, which wanted to decrease the costs to its economy of subsidizing the economic systems of Eastern Europe. As Table 3 shows, the amount contributed to national income by exports rose significantly across the region in the 1970s, but with a marked difference between the USSR and Eastern Europe in terms of its contribution to national income (see also Collins and Rodrik, 1992, pp.31-3). The structure of trade was very different to that between the USSR and industrialized market economies. As Table 2 shows, the spread of traded goods was much broader in Eastern Europe, although with intra-regional variation, than for the USSR. Hungary, Czechoslovakia and Poland had relatively diverse trade structures, with a balance between the exports of consumer, machinery, raw materials and semi-manufactures, and agricultural goods. Bulgaria and Romania were more similar to the USSR in that their export trade outside the socialist bloc was more dependent on primary goods and was relatively uniform in structure.[2] As a result, the degree to which their economies were penetrated by external economic forces was more limited. Overall, however, the impact of foreign trade on Eastern Europe was much greater than it was in the USSR, as Table 3 shows. This combined with the structure of commodities traded, made Eastern European economies far more vulnerable to changes in world markets. Although they spread the risk far more than the USSR did with its energy dependent trade, the terms of trade for Eastern European states were much worse than for the USSR in the late 1970s. Economic downturn in the West after 1973 and the rise in oil prices meant that the USSR's terms of trade improved by over 100 per cent

[2] The structure of east European trade is difficult to compare since different national agencies used different categories. However, the statistics are indicative of certain essential differences between states with trade uniformity and states with trade diversity. Hungary's exports to developed states were evenly divided between machinery (27.1 per cent) raw materials and semi-manufactures (33.8 per cent) consumer goods (16.1per cent) food and agricultural products (20.7 per cent). Czechoslovakia's exports to non-socialist states were likewise evenly divided between machinery (23.8 percent) fuels, minerals and metals (20.3 per cent) chemicals (13.5 per cent) raw materials and semi-manufactures (33.8 per cent) consumer goods (20.3) and food and agricultural products (8.2 per cent). Poland demonstrated the most diversity with fuel and energy accounting for 13.8 per cent of exports to developed states, metallurgy 12.2 per cent, engineering 23.0 per cent, chemicals 11.5 per cent, light industrial goods 8.1 per cent, processed food 12.9 per cent and agricultural products 6.5 per cent. Romania and Bulgaria on the other hand displayed less diversity. Romania's commodity structure of convertible currency trade was dominated by fuels, minerals and metals, which accounted for 47.8 pr cent of export trade; the same sector accounted for 36.8 per cent of Bulgaria's trade to developed states, with a further 19.6 per cent accounted for by raw materials and agricultural products. Romania and Bulgaria therefore show a degree of uniformity in the commodity structure of their trade in comparison to the other CEE states. All figures are for 1988, except for Bulgaria, where the figures are for 1990. Sources are EIU country profiles, 1990-1991 and OECD, 1992.

between 1974 and 1980, whereas for Eastern Europe they deteriorated by 20-25 per cent (Lavigne, 1991, p.41).

The centrality of exports to national income in Eastern Europe and the decline in the terms of trade in the 1970s exacerbated the systemic tendency for trade between communist and capitalist states to lead to the former's indebtedness because of the low quality of production in communist states and the hunger for imports caused by investment shortages (Kornai, 1992, pp.349-50). As the terms of trade declined, trade rents were increasingly buttressed by loans from capitalist states. The growth of loans was rapid in the 1970s, rising from US$6.5 billion in 1970 to US$88.1 billion in 1981 (Bunce, 1985, p.38). The spread of the debt burden was very uneven as can be seen in Table 4, with Hungary and Poland particularly hard hit. The USSR's foreign debt also grew rapidly during this period, but proportionately it was much less than the debt of nearly all the Eastern European states through the period, and was actually a smaller amount than Poland's debt (Lavigne, 1991, p.344). As Table 4 shows, debts for the most part continued to grow in the 1980s, and ability to service debt declined as debt-service ratios grew. Again, the USSR bucked the trend, its debt-service ratio being below 5 per cent for the period (Lavigne, 1991, p.328).

The forms of external rent taken across the communist world to shore up their economic systems were thus very different. Differences in how rentierism developed was linked to the different strategies that emerged for dealing with its problems. In some cases, strategy and the development of rentierism went more or less hand in hand; the development of relative economic liberalism in Hungary from the late 1960s and the expansion of its trade and debt over the course of the 1970s would be a case in point. In other cases, strategy developed haphazardly, as in Romania where loan rents were foregone in favour of trade rents that could reduce debt, albeit at the cost of domestic consumption in the 1980s. The mix of strategies that emerged complicates the nature of the property/rentier mix in Eastern Europe as communism moved to its terminal stage in the late 1980s since it created different foreign trade regimes in the region, with some states moving toward decentralization. However, we can classify the property/rentier state mix in across the region by comparing the degree to which rentierism had become a vital part of the economic systems of the states of Eastern Europe. This classificatory schema is laid out in Table 5. The property/rentier state mix can be high, medium or low, according to the balance between the ratio of exports to national income, debt and debt-service ratio, and the degree to which the economy was penetrated by the global economy though a state's possessing a relatively diverse and balanced commodity export structure.[3]

How states in the region actually mixed the two ideal-type forms is listed in Table 6. The USSR and Romania had a low mix of rentier and property state forms, with relatively uniform sectoral exports that insured that the degree to which their economies were penetrated by rentierist elements was insignificant. Poland and Hungary, with their high levels of debt, debt-service, exports to national-income ratio and decentralized foreign trade regimes were at the other end of the spectrum and had diverse and relatively balanced foreign trade commodity structure that insured a wide domestic

[3] Security rents and trade subsidies are left out since they were imposed and uniform, and they predated the evolution of the communist state in most of the area.

Table 4 East European debt

	Net debt[a]		Debt-service ratio[b]	
	1982	1989	1981	1989
Bulgaria	3,912	7,957	21	48
Czechoslovakia	4,097	5,724	17	23
Hungary	10,344	18,015	42	49
Poland	27,033	35,890	163	76
Romania	9,581	-1,254	36	19

[a] US$ millions at 1989 exchange rate
[b] Debt-service ratio: all interest and amortization on medium and long-term debt as a percentage of one year's exports

Source: Baylis, 1994, pp.251-2

Table 5 Property/rentier state mixes

Property/rentier state mix	Characteristics
High	Predominately high ratio of exports to national income; high debt and debt-service ratio; high penetration of economy by rentierist elements through export trade diversity.
Medium	Mixture of high and low ratio of exports to national income; debt and debt-service ratio; penetration of economy by rentierist elements through export trade diversity.
Low	Predominately low ratio exports to national income; low debt and debt-service ratio; low penetration of economy by rentierist elements due to limited export trade diversity.

Table 6 Property/rentier state mixes at the end of communism

	Export/ national income ratio	Debt	Debt-service ratio	Rentierist penetration of economy through export trade structure	Property/rentier state mix
Bulgaria	High	Low	High	Low	Medium
Czechoslovakia	High	Low	Low	High	Medium
Hungary	High	High	High	High	High
Poland	High	High	High	High	High
Romania	Low	Low	Low	Low	Low
USSR	Low	Low	Low	Low	Low

interaction with the global economy. Bulgaria also had a high degree of rentierism, but without the support of a diverse and relatively balanced foreign trade commodity structure so that although it demonstrated high rentierist elements its domestic economy was relatively isolated from global influences. Czechoslovakia mixed elements of both property and rentier forms, but unlike Bulgaria, this was more balanced by its more diverse and even sectoral trade patterns.

There is not space here to go through the various ways in which the different patterns of interaction with the global economy and property/rentier state mixes worked themselves out case by case. We can see, however, the basic outcomes that they helped to generate. A high or medium mixture mix of rentierism with property state forms was not in and of itself enough to guarantee more rapid movement towards reform. Although rentierism was important in breaking down the property state, it was only effective as a support for reform where there was a diverse set of sectors involved in exports so that there was penetration of the domestic economy across a broad front. Czechoslovakia was thus in a better position than Bulgaria. Bulgaria, due to the low degree to which it was actually penetrated by rentierist elements, had more in common with Romania. The transition was much smoother in Bulgaria, where the property state form was more compromised, than in Romania, where it was stronger, but both had relatively uniform sectoral export structures so that collapse was not followed by rapid reform progress. Poland and Hungary, and the more penetrated Czechoslovakia were thus in the best position to implement reforms, whilst the Soviet successor states and Romania had less to support a reform drive.

The overall patterns of economic change can be seen in tables 7 and 8. Table 7 shows how a high rentier/property state mix, or a medium mix with a diverse trade structure eased the path of reform in the first years of transition (until mid-1995 in Table 7). Poland, Hungary, and the Czechoslovak successor states scored more highly on reform indicators such as the European Bank for Reconstruction and Development measures reported in table 7, were more open and privatized than states with low property/rentier mixes, or low penetration by rentierism. In Russia, the CIS, Romania and Bulgaria, with their low mixes, or weak penetration by rentierism, progress towards reform was slower, although the latter two states opened up their economies more speedily than Russia and the CIS. Constructing a tax state requires a broad array of reforms to be implemented in both the economy and the political system. However, we can get some idea of the success in moving from one state form to another by looking at the general stability of government finances, which with some caveats can be taken as a proxy measure of progress towards the tax state ideal. Table 8 shows progress towards stabilization of government finances. Where the property/rentier mix was low, or was medium but with little depth, government finances suffered greater deficits in the early years of reform (1990-1992 in Eastern Europe, 1992-1994 in the CIS), than they did where there was a high property/rentier mix, or where the mix was medium but deep. In the latter cases, state finances have been relatively steady, with moderate deficits across the reform years. The absence of great shocks despite the experience of transitional recession highlights the ability of these states to take resources relatively effectively despite change in the economic system. Elsewhere, however, the picture is very mixed. States that had energy resources suffered less than states that had a weaker resource base. Hence, Romania fares

Table 7 Property/rentier state mixes at the end of communism and initial post-communist economic performance to mid-1995

Property/rentier mix and trade structure	EBRD reform indicator average[a]	EBRD measure of trade and foreign exchange liberalization[a]	Private sector share of GDP (%)
Low and uniform			
Russia	2.55	3	55
CIS average	1.97	2.6	27
Romania	2.44	5	40
Medium and uniform			
Bulgaria	2.55	4	45
Medium and diverse			
Czech Republic	3.66	5	70
Slovakia	3.44	5	60
High and diverse			
Hungary	3.66	5	60
Poland	3.55	5	60

[a] Scale of 1 to 5, with 5 as the highest

Source: calculated from EBRD, 1995, p.11

Table 8 Post-communist government balances, (% of GDP)

Property/rentier mix and trade structure	1990	1991	1992	1993	1994	2000
Low						
Armenia			-37.6	-48.2	-16.1	-6.3
Azerbaijan			2.8	-13.0	-18.0	-0.6
Belarus			-1.6	-8.3	-1.5	0.3
Georgia			-3.0	-28.0	-34.0	-4.1
Kazakhstan			-7.3	-1.2	-6.5	-1.0
Kyrgyzstan			-17.4	-13.5	-8.4	-9.6
Moldova			-23.4	-8.8	-8.0	-2.6
Romania	na	-1.9	-4.4			-3.7
Russia			-31.0	-18.8	-7.6	3.0
Tajikistan			-29.9	-24.7	-6.4	-0.6
Turkmenistan			13.2	-0.5	-1.1	0.4
Ukraine			-30.4	-10.1	-8.6	-1.3
Uzbekistan			-12.0	-20.0	-2.0	-1.2
Medium and uniform						
Bulgaria	-12.8	-14.7	-15.0			-1.0
Medium and diverse						
Czechoslovakia	0.1	-2.0	-3.3			
Czech Rep						-4.2
Slovakia						-3.6
High and diverse						
Hungary	0.5	-2.2	-5.6			-3.3
Poland	3.1	-6.5	-6.7			-3.2

Sources: EBRD, 1995, pp.188-211; EBRD, 2002, pp.117-217 better Bulgaria, Kazakhstan and Azerbaijan better than Armenia, Georgia and Tajikistan. In certain cases, at the end of the 1990s, government balances were even positive where the price of energy boosted economies (as in Russia). This does not signify that there has been progress, however, but that these states have been able to control energy rents in new rentier forms that have pushed aside remnants of the old property state form without giving birth to new tax state forms.

PATTERNS OF POST-SOVIET RENTIERISM

The acceleration of economic crisis under Gorbachev increased Soviet interaction with the global economy, but they did not touch the economy of the post-Soviet state uniformly. As oil prices fell in the late 1980s and import prices remained stable, the central state budget was heavily squeezed. The Soviet state was running a yearly budget deficit of about 9 per cent of GDP in the late 1980s (EIU, 1991, p.37). Foreign borrowing –'chaotic and large-scale' during this period – covered some of the central state's revenue shortfall as the USSR's short-term foreign debt doubled between the end of 1987 and the end of 1989 alone (Lushin and Oppenheimer, 2001, p.288; IMF et al, 1991a, p.40). Gorbachev further tried to alleviate crisis by opening up the Soviet economy, but the results were not impressive (Robinson, 1999). These reforms did not fundamentally alter the property/rentier mix, therefore, and as a result, there were no powerful new incentives structures that might have strengthened pressure for change from either below or from within the state. Post-Soviet leaders were not faced with the same external and internal constraints as their counterparts in Eastern Europe. There was only weak involvement of outside parties, whether international financial agencies or private economic actors in the USSR at the start of the post-communist period.

In the absence of strong pressures to change, the most powerful incentives were to insure continuity. There were exceptions to this for some state actors, most notably the Russian effort at reform in 1992. This exception proves the rule, however. Russia's drive towards the market through shock therapy was a response to the weakness of the Yeltsin government in the face of domestic economic forces and an effort at reconnecting with the global economy to balance out domestic producers' power (Robinson, 1999). The failure of this dash to the market, and the subsequent reconciliation of the Russian government with a part of the economic elite and transfer of energy resources to them, showed that there was not a domestic constituency in the Russia large enough to support market reform in the first instance. Moreover, exogenous economic agents, private and supra-governmental, did not have the same amount of leverage on the Russian government that they had elsewhere, especially since Russia was able to secure resources from the international community for foreign policy reasons (Stone, 2002).

Outside of Russia, insuring continuity was less controversial from the onset of independence. Independence, and the consequent fragmentation of the old Soviet pattern of interaction with the world economy, meant that insuring continuity was going to be difficult, however. The collapse of the system for redistributing the USSR's trade rents was not accompanied by end of the requirement to channel resources to society. Unlike model rentier states, the new rulers of the CIS could not buy-off their populations through low tax policies coupled with selective distribution of resources in the form of patronage to elites. Social peace was not maintained by the state standing apart from private economic activity and taking little form it in the way of tax, but through the state providing basic welfare. Post-Soviet rulers thus had a difficult balancing act to achieve if they were to buy-off both elites and their populations. To achieve this they consolidated aspects of the communist rentier state model, albeit with new regional variations.

The chief variation has been in the depth to which rentierism has taken hold and the degree to which it has structured government. The first divide is between those states that have complex economies and are not reliant on one or two key imports, and those states that are more classic rentiers in their dependence on energy and primary product sales. The latter have developed patrimonial and personalistic regimes to a greater extent than the former. Energy rents have been the main source of patrimonial and personalistic power, although in some states, most notably Turkmenistan and Uzbekistan, considerable rents have accrued from cotton as well, or from other forms of mineral wealth such as gold in Kyrgyzstan. States where energy rents have played a significant role are listed in Table 9. There is obviously a high degree of variance between the extents that energy sales contribute rent across the CIS. In Azerbaijan, Turkmenistan and Uzbekistan, energy rents have been very high as a proportion of GDP. In Azerbaijan and Turkmenistan, these rents have gone to government directly and then been redistributed (sometimes). In Uzbekistan, where large rents were also available from the cotton sector, they have been used to give subsidies to consumers, rather than accumulated as direct revenue flows to the state. Kazakhstan has taken revenue less from exports, but has compensated by allowing large FDI inflows into the energy sector. This strategy, shared by Azerbaijan, was a response to political threats, particularly regional divisions, and a lack of alternative rent sources. In order to quell potential threats and stimulate a rapid inflow of some resources from the one rent source that they had, Kazakhstan and Azerbaijan privatized their energy sectors to create short-term rent flows that could more immediately be used for patronage (Jones Luong and Weinthal, 2001).

Table 9 Energy exports and rents, 2000

	Oil and gas export as % of total exports	Oil and gas export as % of GDP	Oil and gas as % of total government revenue	FDI in oil and gas as % of total FDI	Energy rents 1992-2000 as % of GDP
Azerbaijan	85.2	30.5	36.2	80.5	50.2
Kazakhstan	46.8	24.7	27.5	69.7	20.9
Russia	50.4	21.5	30.1	10.7	26.0
Turkmenistan	81	69.7	42.0		44.4
Uzbekistan	12.3	4.3	14.8		39.5

Source: Esanov et al, 2001, pp.4, 5

No matter how rent has been taken, the effect, roughly, has been the same: personalistic regimes have developed based on patrimonial power. The extent of personalistic regime development has varied. Where there has been more state control and less privatization, the degree of authoritarianism has been more extensive. This pattern has produced authoritarian regimes in Uzbekistan and Turkmenistan, whilst the opening up of the economy and competition over resources has produced illiberal, but not fully authoritarian, regimes in Azerbaijan and Kazakhstan (Ishiyama, 2002). Case by case, how rents have been used to buy-off opposition has varied. Uzbekistan, Turkmenistan and Kazakhstan have cushioned their populations against GDP falls. The estimated GDP ratios in 2001 compared to 1989 of in the three states was respectively 105, 96 and 84 per cent; the CIS average is 64 per cent (EBRD 2002, p.58). Azerbaijan, on the other hand, has not cushioned its population in general from falling GDP, but has channelled the money to economic elites by keeping enterprises profitable, despite high falls in production; it has one of the lowest rates of enterprise unprofitability in the CIS, second only to Uzbekistan (Statkomitet SNG, 2002, p.215).

Some small energy rents have accrued to other post-Soviet states, in particular through control over pipelines and transport routes. However, these generally make only a minor contribution to state budgets. More important in the absence of great mineral wealth or saleable commodities, have been the perpetuation of elements of rentierism by resource transfer from Russia in the form of security rents and subsidies.

Russia's role as regional hegemon in place of the USSR makes it a source of security rent. The ability to take this rent is not universal in that Russian military involvement in some parts of the CIS is far from benign (Georgia, for example). The system of security rents is not institutionalized in the same way that it was for the Warsaw pact. The CIS collective security arrangements have been far less successful or extensive than the old alliance system with the outer empire. However, post-Soviet states have benefited from, first, guarantees about the stability of borders made as the USSR collapsed between the new partner states of the CIS, and second, from security cover and bilateral treaties with Moscow. Sometimes these arrangements have been explicit, as with the Russian presence in Tajikistan, the CIS agreements on collective security and peacekeeping, or the bilateral agreements with Belarus or Kyrgyzstan enabling Russian military use of facilities 9and US bases in the case of Kyrgyzstan, which may derive up to a fifth of its state revenue from US leasing of airport facilities). However, even where there were no formal agreements, many post-Soviet states rested under Russia's security cover because Russia has continued to be a regional hegemon sufficiently strong to prevent threats from other states, if not from small-scale insurgency. The extent of security rents, and what there removal might mean, is hard to gauge. However, elsewhere in the world the *de jure* recognition of statehood independent of a state's ability to defend its sovereign status has clearly been related to a decline in economic regulation by elites. Where there is no military imperative to accumulate resources, elites are able to deploy rents that they control to private ends and need not involve themselves in developing other resource streams (Bates, 2001). Security rents therefore magnify the effect of rentierism and make its demise less likely.

Subsidies have taken various forms. A one off subsidy was the gradual Russian shouldering of the USSR's external debts. These had been shared out by CIS states in March 1992, but Russia took over responsibility for the debt to secure political goals in the CIS over the next few years. Like Eastern Europe before them, Russia's energy exports to the CIS were heavily discounted. Energy exports consistently make up 40-50 per cent of Russian exports to the post-Soviet space (Goskomstat, 2000, pp.582, 587). In the first years after independence, they achieved only 30-40 per cent of the world market price. The net result was a loss to Russia of about 12 per cent of GDP. Russian subsidies in total amounted (at the lowest estimate) to 50 per cent of CIS countries' GDP and cost US$17 billion (the highest estimate was US$67 billion). Further subsidies came through the rouble zone and bank credits from the Russian Central Bank. These were very significant, ranging from 90 per cent of GDP in the case of Tajikistan to 10 per cent of GDP in Belarus (*Ekonomika i zhizn'*, 1996, 16, p.1; Åslund, 1995, p.123; van Selm, 1997, pp.108-10). Subsidies have not been provided as smoothly overtime to all post-Soviet states as they were to Eastern Europe due to breakdowns in relations and crisis in the Russian economy, and as the Russian government tightened the emission of credit to other CIS states through the Central Bank. As some forms of subsidy have declined, post-Soviet states have replaced them with transfers from foreign lenders. This has lead to a massive build-up of debt as on average, external debt as a percentage of GDP and relative to exports has doubled in the post-Soviet states, especially since 1994 and the decline in resource transfers from Russia (EBRD, 2002). These debts have grown up as the decline in intra-regional trade has been replaced by imports from the west. States' capacity to maintain this trade is, however, itself dependent on subsidy from abroad in the form of cheap energy imports from Russia. The cheapness of energy inputs and unpaid bills enable foreign trade and its taxation. Ukraine, for example, owed Russia some $3.5 billion in trade debt by February 2000, with most of this outstanding amount being owed for gas imports. This unpaid fuel bill is a major factor that enables Ukraine to continue trading with the rest of the world: if fuel costs were paid, many Ukrainian exports would become uneconomic and unsaleable (von Zon, 2000, pp.113, 117). Although the Ukrainian state is not efficient at taxing trade, it does raise revenue from exports, particularly through licences and the arms trade. To an extent then, Ukrainian, and other states', ability to take tax from foreign trade results from Russian support, and they have put policies in place to extract resources to fund public works. This, of course, is not dissimilar to the position that Eastern European states were in before 1989.

Only one state, Belarus, has been able to use both security and trade subsidies to buffer its population to a great degree against the economic downturn associated with transformation from the property state model. It was able to do this because of the degree to which its economy, in particular its military industrial complexes, was integrated with the Russian economy before 1991. Belarus has maintained its trade links with the CIS and in particular Russia; 60 per cent of Belarus's exports were to the CIS in 2000, compared with an average for the whole CIS of 34 per cent; 89 per cent of these exports went to Russia. The bulk of Belarus's imports came from the CIS and Russia too (Statkomitet SNG, 2000, pp.70-1). This has helped Belarus maintain one of the few positive balance of payments amongst non-energy producing post-Soviet states. This has helped to keep its GDP high relative to the communist period and the energy producing states; in 2001 estimated real GDP was 91 per cent of 1989 real GDP, against the CIS average of 64 per cent (EBRD 2002, 58). This has also meant that Belarus has been one of the few states not to witness a massive build-up of foreign debt.

There has therefore been great variance between both energy dependent and non-dependent states. There has been a tendency for resources to strengthen patrimonialism, but this need not be the case (as Belarus, where trade stands in for resources, demonstrates). Most non-energy dependent economies have been able to preserve some aspect of rentierism sufficient to keep the social peace, avoid harsh reform decisions and maintain some degree of elite continuity, but, like Eastern Europe before them have done so in large part thanks to the transfer of resources to them from Russia. The difference this time is that the source of rent, Russia, is not markedly different in the form that its relationship to the global economy takes than some other states. Although Russia has significant energy rents, these are not fully under the state's control and as a result, they cannot be used to hold old patterns of rentierism and patrimonial politics in place over the longer term. The reason for this is the way in which Russia privatized its energy industries and allowed private rent seekers to replace the state as the beneficiary of export rents. This was done in response to the failure of the first round of reform. This failure meant that Russia was left with an unreformed industrial sector and a growing budget deficit that could not be funded by energy rents alone, especially as pressure from below was undermining tax gathering and perpetuating subsidies to industry. The only way out of this for the government in the short-term was to trade control over oil rents from banks in the form of direct loans and short-term debt issues. Russia's considerable energy rents were not, as a result, directly under the control of the state in the 1990s, even though the revenue that it took from oil sales grew at the very end of the decade as the price of oil rose. This is still a long way from the tax state ideal, but it at least shows the hopeful sign that rentierism has not so far stabilized in Russia to the same extent that it has elsewhere in the FSU, even if the state has become more dependent on energy revenues, and is seeking to increase its share of them.

CONCLUSION

Patterns of change have been very different between Eastern Euope and the CIS and these differences are rooted in the past, in the way that there were seeds for change under communism in Eastern Europe that were missing in the USSR. Relations to the global economy were important to this process since they changed aspects of the classic communist state and created constituencies for change across the state/society divide. This was uneven and far from complete by the time that communism collapsed in Eastern Europe, but it gave governments resources that they did not have in the CIS and created incentives for economic actors to co-operate with reform, even if it was not in their short-term interest. Incentives and resources for change have continued to be missing in parts of the USSR, although this is not uniform. Where they have been missing continuity in elites and anti-democratic government has often been based on the intensification of rentierism at the cost of development. Some resource rich states may be able to sustain this pattern for a long time. However, the weakness of rentierism in other states, like Ukraine, means that they are likely to be prone to crisis, or held hostage to Russia's ability to provide subsidies and security rents. They lack the resources to ride crisis out without help from Russia, import crisis from Russia, and at the same time do not have the means to foster development and break their dependency. Russia itself, whilst displaying some elements of rentierism, has a diverse structure of ownership in the energy sector that has helped to remove part of the potential for rent from politicians' hands. This has not yet created something approaching the tax state model, but it has at least raised the political costs of moving toward rentierism in Russia, and this, together with its fragile political system and electoral cycle, have helped to keep it a low-level functioning democracy, although not a consolidated or secure one. Given Russia, and the areas past and sometimes present, this represents progress of a sort.

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