

Is there a necessary condition for democracy? The role of state capacity in postcommunist countries

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Is There a Necessary Condition for Democracy? The Role of State Capacity in Postcommunist Countries

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Abstract

Although postcommunist countries share a common past, the variability of outcomes in both democracy and economic reform is very large in the region. Only a few countries have become Western-type democracies in Central and Eastern Europe and the Baltic. By contrast, the norm is clearly not democracy for other Soviet successor states. In this article, the author attributes this variation to differences in the infrastructural capacity of the state. Using both quantitative and qualitative analyses within 26 postcommunist countries, the author argues that for democracy to flourish, the state must first possess the necessary means to maintain law and order and to protect the rights of citizens, in other words, to ensure the maintenance and delivery of essential public goods. The results show that the links between a strong state that has been able to apply a definitive set of rules and democratic institutions are clear.

Keywords

state capacity, democratization, postcommunism, transition

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For an increasing number of contributors to the discipline, the connection between a strong state and democratic institutions is obvious (Bunce, 2000; Fukuyama, 2004; Hashim, 2005; Hendley, 1997; Holmes, 1997; Huber, Rueschemeyer, & Stephens, 1999; Kaufman, 1999; Linz & Stepan, 1996; O'Donnell, 1993; Przeworski, 1995; Roberts & Sherlock, 1999; Sharlet, 1998; Suleiman, 1999; Tilly, 2007; Wang, 1999). As Linz and Stepan (1996) argue, an effective state is essential to support the other building blocks of democratic consolidation (civil, political, economic, and the rule of law). In other words, for democracy to flourish, the state must possess the means necessary to maintain the rule of law, to protect the rights of citizens, and to regulate economic transactions. However compelling in theory, this proposition has never been rigorously tested in the context of postcommunist countries.

In this article, I argue that postcommunist patterns of state capacity offer crucial insights into the types of regimes—democratic or authoritarian—that emerged after the downfall of communism. For this purpose, I draw on a mixture of qualitative and quantitative methodologies to evaluate how well this hypothesis reflects the reality of postcommunist transformations. Using a five-item index of state capacity as the main independent variable, I demonstrate the importance of state capacity for regime outcomes in two steps. First, I establish state capacity as a necessary condition for democracy, using a qualitative method to test probabilistic hypotheses: the methodology of necessary conditions as developed by Braumoeller and Goertz (2000). In a second step, I perform time-series cross-sectional (TSCS) estimations on 26 countries from 1989 to 2006 to explain levels of democracy and confirm the patterns observed in the first step. Following this demonstration, I conduct additional tests to assess the direction of the causality between the variables included in this study.

The combined results of these analyses lead to three interconnected conclusions. First, effective state capacity seems to be a necessary—but not sufficient—condition for democracy. Postcommunist countries with comparatively high levels of initial state capacity at the time of transition, understood via proxy of the quality of provision of a basic class of public goods, were more likely to move toward democracy. Second, when explored in a multivariate design accounting for the effect of time, the empirical connection between state capacity and democracy remains robust among postcommunist countries. On one hand, the links between a strong state that has been able to apply a definitive set of rules and democratic institutions are clear. On the other hand, where state capacity was more limited after independence was gained, democracy was a less likely outcome. Finally, however, the direction of causality among variables cannot be established in a

unidirectional way, which indicates that state capacity and levels of democracy likely have mutually constitutive and self-reinforcing effects.

How State Capacity Influences Democratization

A growing body of literature proposes causal mechanisms linking quality of democracy to state capacity. The most influential of such recent theoretical developments is what Grzymala-Busse (2007) has termed robust competition, where high levels of competition among political parties during the postcommunist period explain why state resources were less exploited by ruling coalitions in Hungary, Poland, Estonia, Slovenia, and Lithuania, by contrast with the Czech Republic, Slovakia, Latvia, and Bulgaria. In the former group of countries, opposition parties have been vocal and critical in all successive governments as of 1990, even managing to successfully monitor the level of state exploitation. Grzymala-Busse's argument goes together with studies by Weingast and Moran (1983) as well as Keefer and Stasavage (2000), who argue that the credibility of governments not to renege on their policy commitments is enhanced by the presence of veto players. Similar to these works, Hellman, Jones, and Kaufmann (2000) also contend that levels of state capture can be kept in check by sufficiently developed civil societies.

Expanding on an earlier literature linking levels of corruption and democracy, Bäck and Hadenius' (2008) as well as Charron and Lapuente (2010) propose quantitative demonstrations on a large number of countries using an improved measurement of state capacity.¹ Although the empirical connections between democracy and state capacity are strong in these works, some of the theoretical implications of these studies' findings make it necessary to question the direction of the causal relationship under study. Both studies observe a *J*-shaped or curvilinear relationship between democracy and administrative performance. As in Grzymala-Busse's argument, in countries already above a certain threshold of democracy, further democratization has positive effects on the state's administrative capacity. On the flip side, and more problematic, this reasoning would entail that in highly authoritarian countries, democratization would serve to *reduce* state capacity, and in the case of semiauthoritarian regimes, democratization would then have no effect on state capacity (Bäck & Hadenius, 2008, pp. 20-21).

To explain these puzzling findings, I propose to look at the reverse causal mechanism: At low levels of state capacity, democratization is simply less likely, not so much the opposite. In the face of a curvilinear relationship, it makes sense to propose a criterion of effective state capacity as a pillar to a

polity's potential to democratize, implying that some level of capacity is required for a functioning democracy. If there is no organized and competent state authority, even highly mobilized citizens cannot possibly influence policies. In such settings, the state will not be in a position to carry out basic policies, much less social policies that require even higher state capacity for effective implementation (Huber et al., 1999). Based on this, I argue that the likelihood of a state becoming and remaining democratic is considerably higher when it possesses the means necessary to maintain the distribution of a basic class of public goods. Although effective state capacity can reasonably be considered a necessary condition for democratization, strong states do not automatically produce democratic regimes, nor do they guarantee their survival. Far from being a sufficient condition for democracy, a strong or capable state was also theorized to be indispensable for the maintenance of stable autocratic rule (Way, 2005); this would explain the curvilinear relationships observed in previous research.

A crucial point of departure in understanding postcommunist trajectories of reform and democratic performance is the fact that conditions of state infrastructure were not uniform across the different countries, especially between Central and Eastern European (CEE) countries and Soviet republics. In the case of Soviet republics, most of which had never experienced independent statehood before, the concentration of formal governing institutions of the Soviet Union in Moscow, in the shape of All-Union Ministries and Union-Republic Ministries, meant that each one needed to fill a substantial institutional vacuum in a short period after the dissolution of the Soviet Union. The disappearance of the Communist Party—the main institution of oversight—also left a void. In some of the successor republics that have experienced heavy state engineering, we find intense ethnic strife, conflict, territorial divisions, contested territories, and groups such as clans that can pose a real challenge to the authority of the central government. Georgia and Tajikistan, for instance, suffered from serious malfunctions at the time of their emergence, whereas Moldova and Azerbaijan have also struggled to enforce sovereignty over their secessionist enclaves. Yet these patterns are not common to all former Soviet republics. Belarus and Ukraine emerged from the Soviet Union with comparatively more capable state administrations, however burdened with deep-rooted corruption.

Soviet-induced state engineering was less sweeping in Central and Eastern Europe: Some boundaries were certainly shifted as a result of the conclusion of World War II, but Moscow did not impose massive changes to facilitate the establishment of its authority like the carving of states from scratch in Central Asia.² Most important, despite the de facto control of the Soviet Union, CEE

countries retained local control over the apparatus of the state. The administration, the treasury, and the courts, despite the application of socialist law everywhere, remained in the hands of national elites. Given their sovereign status, most institutions of the state such as the military, the police, and core national ministries, in particular the institutions of taxation, already existed and did not need to be created anew in 1989. When CEE countries recovered their autonomy from Moscow, they faced fewer acute challenges than in the former Soviet Union, where leaders were confronted with the additional burden of having to affirm and enforce the newfound authority of the state on their territory. Although this represented an advantage over most former Soviet republics, it must nevertheless be stressed that CEE countries were not immediately consolidated or stable in the 1990s (Grzymala-Busse & Jones Luong, 2002), nor were they exempt from issues related to limited state capacity (Ganev, 2007). In fact, all eight EU accession candidates had to undergo a fair amount of state building, understood as the administrative capacity to implement the *acquis*, as a condition for admission (Mungiu-Pippidi, 2008).

My contention here is that some of these conditions of state infrastructure precede, to a certain degree, the kind of liberalization that followed (or did not follow) the fall of CEE communist parties and the USSR: There was much variation in the capacity of successor states and, as a result, in the challenges new, or incumbent, rulers faced in establishing state authority on their respective sovereign territories. There were generally fewer constraints on leaders where the capacity of the state was higher: The continuous delivery of public goods made it less probable that state authority would come under any serious strain. Leaders' capabilities for reform were greatest in postcommunist countries where the successor state had the ability to apply a definitive set of rules early on and, by extension, to build channels of political support. These conditions would facilitate a power transition that precluded a single group of actors wanting to secure access to the state's power resources to lock in their victory in an unbalanced constitution.

Where the capabilities of the state were more limited after the collapse of communism, democracy was a more difficult outcome to achieve. In such cases, leaders tended to compensate for state weakness by enlarging and arranging their powers vertically. Leaders in times of crisis often claim the nation needs firm and decisive leadership that stands above the partisan way and can pursue the national interest more directly, in addition to providing more immediate benefits for society (Smith, 2005). The most illustrative example was Boris Yeltsin's refusal to surrender the emergency decree powers he had been granted in 1990 and his heavy use of such tools between 1992 and 1994 to enact privatization that benefited a group of insiders. His successor, Vladimir

Putin, also entered the presidential office with the overt goal of strengthening or consolidating vertical authority, an undertaking that went hand in hand with an increase in authoritarian practices (Holmes, 2006, p. 301). Facing weak state infrastructures in the early 1990s, executives in Georgia, Azerbaijan, and Central Asia also quickly moved to impose a vertical control structure over regional and local administrations, hence thwarting the rise of credible checks. In these settings executives were freer to rely on state resources for patronage and co-optation to gain allies and buy off political opponents.

The establishment of institutions of oversight can have two potential facilitators in postcommunist countries. On the one hand, the early establishment of such institutions can result from "robust competition," where political parties establish tools to monitor state institutions (Grzymala-Busse, 2007). On the other hand, I believe the likelihood that institutions of oversight will emerge, and how binding these institutions are designed to be, is also linked to existing levels of state capacity. States inheriting corrupt and ineffective bureaucracies, large informal economies, and a severely impaired ability to finance their activities will face more difficulties in establishing functioning agencies to oversee privatization, securities and exchange commissions, courts staffed with competent personnel, law enforcement, national accounting offices, and other such institutions that are crucial to forestall the abuse of power. Although Grzymala-Busse (2007) argues convincingly that some former communist states are weak because they failed to implement these institutions fast enough, if at all, the flip side of the coin is that most such states were already weak at the onset of independence and faced additional constraints in establishing these institutions. It therefore becomes difficult to disentangle a factor that existed previously and is unequivocally causal, as I demonstrate in the following analyses.

Cases and Measures

To estimate the two corollary hypotheses according to which state capacity is a necessary condition for democracy and that the establishment of democratic regimes is more likely in capable states than weaker ones, I employ a mixture of qualitative and quantitative techniques using the following 26 cases: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, the Former Yugoslav Republic of Macedonia (FYROM), Moldova, Mongolia, Poland, Romania, Russia, Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. The coupling of qualitative and quantitative tests allows me to tackle the issue of complex causality by harnessing the strength of different approaches to causation.

State Capacity

I propose to capture the concept of state capacity via proxy of the quality of the provision of public goods given their crucial role in establishing state authority on territories (Spruyt, 1994). This conceptualization is anchored in a minimal definition of the concept of state capacity, solely in terms of infrastructural power. Here, infrastructural power is defined as “the institutional capacity of a central state, despotic or not, to penetrate its territories and logistically implement decisions” (Mann, 1993, p. 59). This understanding of state capacity is operationalized by examining the quality of provision of a class of collective goods even a minimally redistributive state should theoretically provide, as proposed by recent work (Fortin, 2010). Rather than focusing on the measurement of absolute resources, this approach assumes that it is insufficient that a state should possess important human and natural resources for the production of wealth: It must also be able to effectively make use of those resources. As well, this intentionally leaves aside the despotic or coercive power of states since such aspects of power do not necessarily go hand in hand with infrastructural power.

The index used in this article is based on the aggregation of five indicators, rather than the single or two-indicator measures proposed in previous studies. The indicators retained are progress in infrastructure reform European Bank for Reconstruction and Development (EBRD), levels of corruption (Heritage Foundation), the quality of property rights protection (Heritage Foundation), and the ratio of Contract Intensive Money (CIM), calculated from International Monetary Fund financial statistics. Last but not least, the delivery of such public goods depends on the crucial factor of funding. Thus, a state’s ability to collect taxes will be paramount to the delivery of public goods and consequently a core measure of state capacity. I use the ratio of tax revenue to GDP to illustrate state taxing capacity. To make the final index, all indicators were standardized and combined to be used as a single measure. Factor and correlation analyses revealed that the association among the items is strong, that they measure a similar latent construct, and therefore that the combination of these items in a composite index is the best option in the present case.³

Regime Outcome

Most observers agree that no single index of democracy offers an adequate solution to all three challenges of conceptualization, measurement, and aggregation, accompanying the transformation of an abstract concept into a

measurable indicator (Munck & Verkuilen, 2002, p. 28). However what ultimately constrains researchers in choosing a quantitative measurement of democracy is data availability. Since only two studies offer coverage from 1989 continuously until 2006, the dependent variable used in the present study is an additive combination of Freedom House (2008) scores and the Polity IV index (Marshall & Jaggers, 2009) in a single composite measure.⁴ By grouping the two indices, I hope to maximize both the validity and the reliability of the composite index since Freedom House uses a maximalist definition of democracy and Polity a more restrictive one. In particular, Freedom House (2008) considers characteristics such as socioeconomic rights, freedom from gross socioeconomic inequalities, and freedom from war. Polity's coding of democracy is based on an assessment of the competitiveness of political participation, the regulation of political participation, the competitiveness and openness of executive recruitment, and the constraints placed on the chief executive. Therefore, combining both indices will serve to alleviate problems of systematic and random measurement errors undoubtedly present when the two measures are considered separately.

State Capacity as a Necessary Condition for Democracy

The first step in testing the hypothesis of state capacity as a necessary condition for the establishment of democracy consists in visually inspecting the graphical representation of both variables of interest. Figure 1 presents average values of state capacity during the period 1989–2006 with combined Freedom House scores in 2006. The two vertical lines represent Freedom House's classification cutoffs (respectively, free, partially free, and not free), whereas the horizontal line simply is the mean of state capacity over time. The distribution of cases in Figure 1 offers clear evidence (Pearson's $r = -.80$) in favor of the state capacity hypothesis as most cases, except FYROM, fall neatly within three categories. As expected, the relationship between the two variables of interest is not straightforward but slightly curvilinear as illustrated by the locally weighted scatterplot smoothing (lowess) smooth regression line. The most important finding is that nearly all regimes classified as "free" by Freedom House are located in the upper-left cell of the graph. Conversely, all authoritarian and semiauthoritarian regimes are positioned in the lower half of the state capacity quadrant.

Figure 1 only provides a partial confirmation of Lucan Way's (2005) claim that "key elements of a strong state are critical for maintaining nondemocratic rule" (p. 235). Belarus and Uzbekistan, the two most repressive

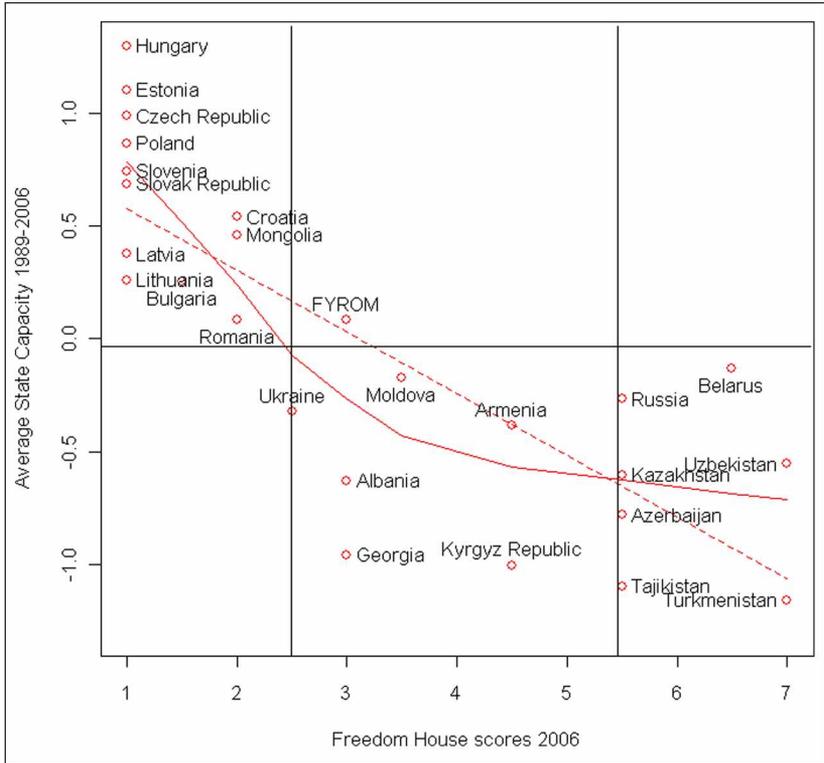


Figure 1. Average state capacity 1989–2006 and democracy in 2006

regimes, indeed display higher state capacity scores than all other autocracies. Yet it is crucial to notice that both exhibit much lower scores than democracies and that a highly repressive regime, Turkmenistan, displays a low overall state capacity score. Although democracies are neatly clustered in the upper-left corner of the graph, we notice that variability in state capacity scores increases as we move toward the more authoritarian end of the spectrum. The direction of the lowest regression line changes in the bottom right cells: State capacity becomes weakly associated with more repressive regimes but with too many outliers to offer unambiguous evidence.

Technically, FYROM’s positioning in the top-middle cell could require discarding the necessary causation hypothesis altogether since in many necessary causation tests, we should reject the theory on the discovery of a single counterexample. However, such a strict approach to testing for necessary

conditions is likely counterproductive in the present situation, not only because of the arbitrariness of the position of category lines but also because of possible measurement errors and the fact that these figures correspond to averages over time. The arbitrariness of the horizontal line has two potential consequences for necessary causation testing. Given their median position in Figure 1, Romania, FYROM, Moldova, Ukraine, and Belarus could be grouped either with the more capable states or with the less capable states, a problem that often arises when continuous concepts are dichotomized and assigned a discrete boundary (Braumoeller & Goertz, 2000). The same argument also undeniably applies to the classification of democracies and nondemocracies; it is not clear where the border of demarcation between democracies and nondemocracies should be located or whether the establishment of a truly discrete empirical cutoff is even possible.

Table 1 presents the results from Figure 1 in a four-cell table to test for necessary or sufficient causes. Observation of Table 1 reveals, unsurprisingly, that the data do not satisfy the sufficient causation requisites. In particular, for state capacity to be a sufficient cause of democracy, we should find some cases located in cell A whereas no cases should be present in cell C (cells B and D are not considered in this design). Because authoritarian regimes can also be a plausible outcome in strong states, state capacity is not a sufficient cause for democracy. Using the positive outcome design, where the analyst focuses only on cases where the outcome variable is present (Braumoeller & Goertz, 2000; Dion, 1998; Ragin, 1998, 2000) to test for necessary conditions, we observe that democracy has occurred only in countries displaying a certain level of state capacity. The presence of variation in both independent and dependent variables further indicates that state capacity is a nontrivial necessary condition to democracy.

According to rules of the All Cases Design (Seewright, 2002) for establishing necessary causation, all valid cases should be distributed in cells A, C, and D, whereas no cases should be found in cell B: The pattern outlined in Table 1 satisfies these requirements. Using simple models of Bayesian inference where we set prior probabilities that the necessary condition is true, the results from these data are consistent with the necessary causation pattern. In a model where we have no reason to believe that either hypothesis is more likely to be confirmed, the confidence level that the present data are consistent with the necessary causation pattern is 97%.⁵ In other words, we can be confident with a level of 97% that the data are generated in a pattern that is consistent with necessary causation even in the face of conservative priors.⁶ Further confirmation of these findings will be established in the following section using TSCS estimations.

Table I. Necessary and Sufficient Cause Design

Democracy	Cell A (12)	Cell B (0)
	Bulgaria Czech Republic Croatia Estonia Hungary Latvia Lithuania Mongolia Poland Romania Slovakia Slovenia	
Nondemocracy	Cell C (1)	Cell D (13)
	FYROM	Albania Armenia Azerbaijan Belarus Georgia Kazakhstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Ukraine Uzbekistan
	Stronger states	Weaker states

Time-Series Cross-Sectional Analyses

Pooled time-series and cross-sectional (TSCS) estimations are sensible when cross-national and temporally comparable quantitative indicators are only available for a short period and for a small group of countries (fixed, not sampled). Although it offers clear sample size advantages, the pooling of time series from a number of cross-sectional units can increase estimation difficulties. While the data are not temporally dominant, the nature of the

units and the arguably endogenous variables all point toward probable heteroscedasticity. When time-series data are pooled from geographic entities, cross-sectionally correlated errors can become more problematic (Kmenta, 1971). More precisely, the variance of error processes likely differs from unit to unit. To reduce the risks associated with overconfidence in the performance of estimators, the following analyses are performed using TSCS models of linear regression with panel-corrected standard errors (Beck & Katz, 1995).

In the following analyses, I estimate three models using varying specifications to test the robustness of the state capacity hypothesis. First, I estimate a base model of regime outcome containing regressors of state capacity, levels of development captured by GDP per capita, and the role of the European Union, crudely measured as the distance of each country's capital to Brussels. To curb the problem of spurious correlations arising when certain values of the dependent variable vary independently, but in the same consistent direction over time, I include a trend variable. This trend variable, the number of years elapsed since independence from communism, will also serve to capture effects of maturation and regime development that can account for some extent of variance in regime outcomes. Following this initial setup, I then add a lagged value of the dependent variable (LDV) in a second model to control for autocorrelation. Third and last, I include a series of country dummy variables for each unit of the pooled model. TSCS equations suppose that countries are homogeneous, that is, that they differ only in levels of explanatory variables they possess, an unreasonable assumption in the case at hand. The least square dummy variable estimators (LSDV) will account for the possibility of intercept differences across units but also for variance from potentially influential variables that were left out of the model (Hicks, 1994; Judge, Griffiths, Carter Hill, Lutkepohl, & Lee, 1985).⁷ This last model specification should provide the strongest test of the robustness of the coefficient of state capacity in the face of an overspecified model.

Data Imputation

Despite being high in validity and reliability, the index of state capacity I employ as an independent variable in the following models suffers from an important weakness: Missing data in the early years of transition. On the potential 432 cases the present analyses could benefit from, a mere 263 remain when full models are estimated, even if only 5% of cases are missing. The majority of missing cases is distributed in the extremities of the time

variable and in the least advanced countries, and they are therefore not missing at random. Here, listwise deletion is a substandard alternative for three reasons. First, listwise deletion would be especially damaging given the distribution of the missing cases in the first year of independence since this would remove much crucial information about the early 1990s from the final analyses and, consequently, render it impossible to perform appropriate tests for the hypothesis. Second, the concentration of missing cases in Central Asia and the Caucasus would undoubtedly introduce systematic bias in estimating the effects of low state capacity on outcome variables. Last, because TSCS requires a minimum of continuous panel information to produce reliable estimates, listwise deletion would reduce country observations and introduce gaps between years in a way that is insufficient to produce reliable estimates.⁸

To mitigate the problem of missing data, I chose to impute a portion of the cases (for tax revenue and contract intensive money) using (Honaker, King, & Blackwell, 2009; King, Honaker & Scheve, 2001), the best option available to generate plausible and unbiased results (Allison, 2000).⁹ In the case of corruption levels, and the quality of private property protection, I chose a more conservative data interpolation technique where starting values are similar to the first year of actual data coverage by Heritage Foundation (in most cases around 1995). The hypothesis underlying the interpolation is that in no case were the scores for these indicators higher in early years of transition: They were likely lower, or the same as a few years after, at best. The final index of state capacity therefore contains both actual measurements and estimated measurements of individual indicators and should therefore be handled and interpreted with a measure of prudence in the very early years. With this, I believe the advantages of using estimates produced from this approximate information clearly outweigh the option of dropping nonrandom cases.

Findings

Estimation results of the baseline state capacity model are presented in the first column of Table 2, whereas the two alternative models, one including an LDV variable as well as a third containing LSDV estimators, are displayed in the last two columns. For all models presented, the upper section of the table represents estimates of the parameters of the causal factors included in the regression. Where applicable, the middle section of the table represents nation-specific intercepts, net of the effects of the other independent variables. Since I have suppressed the constant in the model concerned (Model

Table 2. Time-Series Cross-Sectional Analyses of the Effect of State Capacity on Regime Outcomes

Independent variable	Model 1: Baseline		Model 2: LDV		Model 3: LSDV	
	OLS est.	PCSE	OLS est.	PCSE	OLS est.	PCSE
Regime outcome _{t-1}			0.789***	(0.043)	0.441***	(0.044)
Time elapsed	0.030***	(0.009)	-0.009***	(0.004)	0.002	(0.004)
GDP per capita	0.179***	(0.046)	0.001	(0.016)	0.148***	(0.036)
Distance to EU	-0.315***	(0.046)	-0.049***	(0.016)		
State capacity	0.257***	(0.088)	0.206***	(0.036)	0.068*	(0.039)
Albania					-0.388	(0.384)
Armenia					-0.520	(0.361)
Azerbaijan					-1.134***	(0.371)
Belarus					-1.034***	(0.207)
Bulgaria					0.712***	(0.394)
Croatia					-0.635	(0.224)
Czech Republic					-0.074	(0.454)
Estonia					-0.295	(0.438)
Georgia					-0.376	(0.358)
Hungary					-0.105	(0.441)
Kazakhstan					-1.140***	(0.396)
Kyrgyz Republic					-0.740**	(0.325)
Latvia					-0.166	(0.432)
Lithuania					-0.037	(0.437)
FYROM					-0.345	(0.402)
Moldova					-0.280	(0.320)
Mongolia					-0.027	(0.321)
Poland					0.130	(0.438)
Romania					-0.236	(0.402)
Slovak Republic					-0.144	(0.438)
Slovenia					-0.112	(0.486)
Tajikistan					-1.026***	(0.309)
Turkmenistan					-1.485***	(0.377)

(continued)

Table 2. (continued)

Independent variable	Model 1: Baseline		Model 2: LDV		Model 3: LSDV	
	OLS est.	PCSE	OLS est.	PCSE	OLS est.	PCSE
Ukraine					-0.349	(0.362)
Uzbekistan					-1.455***	(0.355)
Constant	0.183**	(0.096)	0.198***	(0.040)		
N	432		406		406	
Number of countries	26		26		26	
Obs. per group avg.	16.62		15.62		15.62	
Rho	.75		.27		.22	
Adj. R^2	.28		.88		.95	

OLS = ordinary least squares; PCSE = panel-corrected standard error; LDV = lagged dependent variable; LSDV = least square dummy variable. Table entries are unstandardized regression coefficients from a time-series cross-sectional analysis using PCSEs (in parentheses) performed on five imputed data sets using Kenneth Scheve's "miest" program in Stata 10.0. Rho and R^2 values represent the average of five models ran separately.

* $p < .10$. ** $p < .05$. *** $p < .01$.

3), these represent the actual intercepts of the groups and can be directly interpreted as such. These additions allow for slope heterogeneity of state capacity effects across nations. Last, the lower section of the table displays the goodness-of-fit and residual statistics.

The baseline model (Model 1) in the first column of Table 2 provides unambiguous support for the principal proposition regarding the importance of state capacity for democracy: The parameter estimate for state capacity is positive and significant. Also as expected, the coefficient acting as a proxy for EU influence is negative and significant. As well, the parameter estimate for the time elapsed is also positive and significant, provisionally suggesting that countries are becoming more democratic over time. Last, the coefficient depicting level of development (GDP/capita) is also significant and positive. The overall fit of the model is moderate, with an (average) adjusted R^2 of .28, leaving ample space for model improvement.

A LDV was added to the baseline model in Model 2 to alleviate the high level of serial correlation of the errors visible in Model 1 (Beck & Katz, 1996).¹⁰ Because of the real causal impact that past values of democracy

have on subsequent scores, the inclusion of such an item is theoretically justified. In addition, because a LDV also serves as a proxy by picking up some of the unmeasured variables, its addition is also empirically sound (Burkhart & Lewis-Beck, 1994). As it was to be expected with a model presenting some amount of serial autocorrelation, the LDV became the dominant explanatory factor in Model 2, absorbing much of the strength of the other variables and dramatically improving the adjusted R^2 (Achen, 2000). However, even with the inclusion of this autoregressive term, the parameter estimate for state capacity remains statistically significant, despite underestimated effects attributable to the LDV. Yet the inclusion of the LDV has considerable impacts on the other independent variables: The parameter estimate for GDP per capita loses statistical significance, whereas the sign of the parameter estimate for the variable depicting trend is reversed.

Results from Models 1 and 2 confirm previous research concerning the role of the EU being strongly associated with positive democratic progress (Cameron, 2007; Dimitrova & Pridham, 2004; Grzymala-Busse & Jones Luong, 2002; Kopstein & Reilly, 2003; Risse, Green Cowles, & Caporaso, 2001; Vachudova, 2005, 2010).¹¹ Although I recognize these important contributions as well as the value of adding this information to avoid omitted variable bias, “proximity to the EU” measured in distance has limited validity and raises issues of multicollinearity. The strong association between each country dummy and distance to Brussels suggests that this item encapsulates many other unobserved phenomena that are specific to each country and not necessarily related to the EU. Given the crudeness of the measurement, notwithstanding the laudable theoretical underpinnings of existing research, I would advise readers to employ a conservative approach to interpreting these parameter estimates as purely depicting the effects of the EU’s leverage on regime outcomes.

Since Models 1 and 2 do not necessarily contain all the variables influencing regime outcomes, the addition of country-specific variables in Model 3 serves to alleviate remaining concerns of model heterogeneity and doubles as a two-way fixed effects model.¹² Overall, Model 3 explains close to 95% of the linear variation in regime outcomes in postcommunist countries, which indicates that models that integrate state capacity, levels of development, and country-specific variables manage an almost perfect fit to the data and would unlikely benefit from additional variables.¹³ Given that parameter estimates from TSCS models encompass the combined average partial effect of the cross-section dimension and time, their substantive meaning is less readily interpretable than in traditional cross-section models (Firebaugh, 1980;

Kittel, 1999). Although it is impossible to determine the exact magnitude of the relative contribution of each dimension to the parameter estimates, the robustness of the state capacity variable in the models holding country effects constant can be considered as evidence of developments over time that are common to all cases (Kittel & Winner, 2005).

A surprising finding concerns the coefficients for the trend variable which are unstable between the three models. The positive trend noted in Model 1 reverses on the addition of the LDV (Model 2) and is too insubstantial to remain statistically significant when country dummy variables are added (Model 3). It appears then, all things being equal, that although postcommunist regimes have tended to become more democratic over time when we look at overall democracy scores, this improvement is not the result of time itself but rather changes in the other factors included in the fully specified model. The weakness of the variable representing time in the face of a fully specified model suggests that democratic development was neither unidirectional nor automatic in the region.

In an article reviewing the evidence in favor of modernization theory (Lipset, 1959), Burkhart and Lewis-Beck (1994) demonstrated that economic development alone accounted for more variance in democracy than any of the other variables they included in their model, a finding that echoed many earlier studies on the topic (Bollen, 1979; Bollen & Jackman, 1985; Brunk, Caldeira, & Lewis-Beck, 1987; Jackman, 1973).¹⁴ The present study nearly replicates these findings. The variable depicting levels of development is statistically significant in the baseline and fully specified models, even in the face of very high multicollinearity, although it temporarily loses statistical significance in the presence of a LDV in the model (Model 2).¹⁵ Despite the strong association between state capacity and GDP per capita,¹⁶ and the problematic multicollinearity brought by the LSDV, both variables retain statistical significance in the flooded model (Model 3), allowing us to disentangle some independent effects of state capacity and levels of development on regime outcomes. Under such conditions, the fact that the coefficient depicting levels of state capacity retains some explanatory power, even in an over-specified model, demonstrates beyond much doubt that it is one of the key variables explaining regime outcomes.

A Further Exploration of Causality

On the whole, and over time, the index of state capacity is a strong predictor of levels of democracy. However, this close connection raises a last, but nontrivial, methodological concern over the direction of causality. The issue

Table 3. Results From Granger Causality Testing

Dependent: Democracy			Dependent: State capacity		
Variable	Coefficient	t	Variable	Coefficient	t
Democracy _{t-1}	0.88***	45.2	Democracy _{t-1}	0.05***	3.74
State capacity _{t-1}	0.15***	6.23	State capacity _{t-1}	0.91***	48.23
Democracy _{t-2}	0.84***	32.36	Democracy _{t-2}	0.08***	4.13
State capacity _{t-2}	0.20***	6.41	State capacity _{t-2}	0.87***	36.71

Cells contain results from four ordinary least squares regressions performed on two different dependent variables. Regressions for 1-year lags were performed separately from 2-year lags. Estimates were obtained from one of five imputed data sets. Nevertheless, the same estimations performed in the other four data sets allow very close replication of the above table.

*** $p < .01$.

is particularly thorny here because of the impossibility of establishing an experimental design to isolate time order of exposure to the independent variable, thus unequivocally demonstrating directional causality. One alternative way of establishing the direction of causation is to perform Granger causality tests (Granger, 1969). Granger causality evaluates only whether a phenomenon happens before another and helps predict it, but it does not represent the concept causality in any other deeper theoretical sense (Granger, 1980). This test is conducted by regressing the dependent variable (y_t) on lagged values of y_{t-k} and an independent variable (x_{t-k}). The null hypothesis is that x_{t-k} does not Granger cause (g -cause) y_t ; This null hypothesis can be rejected when one or more of the lagged values of x are significant. Table 3 presents the results from the estimations performed according to the above specifications.

In the present case, results indicate that state capacity (x_{t-k}) g -causes democracy (y_t) but that democracy (y_{t-k}) also g -causes state capacity (x_t);¹⁷ we are facing a feedback stochastic system where causality is not unidirectional and values from both variables help predict future values in the other.¹⁸ Substantially, the causal arrow between state capacity and democracy is likely to run in both directions. Feedback effects are undoubtedly present. As demonstrated by Grzymala-Busse (2007), the causal arrow also runs from democracy or party competition to state capacity. In her analysis of postcommunist state reconstruction, Grzymala-Busse showed that opportunistic behavior by ruling parties was curbed in the presence of robust political oppositions, a point similar to Hellman et al.'s (2000) finding that levels of state capture can be kept in check by sufficiently developed civil societies.

Thus, the building of formal state institutions of monitoring and oversight was a more likely outcome in the most competitive systems. Conversely, unchecked governing coalitions have tended to engage in more resource exploitative, clientelistic, and rent-seeking behavior. Consequently, ruling parties in uncompetitive settings fashioned state institutions that facilitated such predatory behavior by thwarting the development of formal institutions of monitoring and oversight.

Discussion and Conclusions

The view I proposed in this article is essentially state centric, not, however, because I believe other factors are less relevant to explain postcommunist democratization. The role of civil society, formal political institutions, values held by key elites and elite constellations, feelings of national unity and ethnic strife, levels of development, contagion effects, political parties, and other institutions have purposely been relegated to the background to isolate the significance of a single factor that had not yet been submitted to comparative empirical verification. Remembering that Huntington (1991) listed no fewer than 27 variables in his account of how democratic regimes emerge and consolidate, state capacity can be only one among many factors.

The demonstrations conducted in this article allow us to reach three basic conclusions about the importance of state capacity in explaining regime outcomes. First, the qualitative methodology of necessary and sufficient causation provides strong evidence that a certain level of state capacity appears to be a necessary condition for democracy. The scope of the challenge postcommunist countries faced after the demise of state socialism was extremely broad. It involved economic transformation, democratic transition, state reconstruction, the resurgence of civil society, the formation of political parties, a complete reorientation of foreign and security policies and, for some, even a reconfiguration of national identities (Sakwa, 1999). As the results presented in this article make clear, some countries were more or less successful at implementing these changes because the capacity of the state in the early years of transition, its strength or weakness, has set the limits of reform agendas that they could reasonably undertake (Roberts & Sherlock, 1999). The varying capacities of states in the early years after their release from communism gave way to different constraints on policy makers about the available options for conducting both economic and political reforms.

Second, multivariate quantitative analyses also demonstrate the existence of a strong and clear empirical relationship between state capacity and democracy among postcommunist countries over time. In that regard, this

article's findings run counter to Remington's (2006) assertion that young democracies should perform worst at protecting property and contractual rights. All the democratic regimes contained in this study are nested within the strongest states, to be exact, the best protectors of property and contract rights. Conversely, there is greater variability of state capacity in semiautocratic and authoritarian states. Stronger states are not linearly associated with better democracy scores in such categories, nor do young autocracies perform better at protecting property rights and enforcing contracts.

The state "is crucial in constituting social order, in enabling regular and peaceful private relations among groups and individuals" (Przeworski, 1995, p. 110) because it makes interactions among groups and individuals more predictable. Consequently, the less capacity a state has at its disposal, the more difficult it becomes to perform the tasks associated with modern statehood (Easter, 2002). When the institutions of the state are not able to enforce rights and obligations, the state's claims on the monopoly of violence and resources can be more easily challenged. Furthermore, when the state cannot fulfill its obligations, individuals turn to alternative channels to satisfy their needs, thus explaining the rise of private protection rackets in Russia to cope for the state's inability to guarantee security for individuals in the early 1990s (Volkov, 2002). Therefore, in states where leaders most successfully accomplish the tasks associated with statehood, the introduction of a rational tax collection administration, infrastructure reform, keeping corruption under control, and protecting property rights, democracy levels are generally the highest. However, unlike the findings of Cheibub (1998), who hypothesized that democracies are more likely than authoritarian regimes to assemble the conditions necessary for an effective tax system, the present findings suggest that the causal arrow might point the other way as well: Democracy is more likely to have emerged in countries with the most effective tax systems within a few years from independence.

Related to this point, the third and final conclusion is that the direction of the causality between these variables cannot be established in only one direction, which indicates that state capacity and levels of democracy have mutually constitutive relationships. In other words, strong state capacity is associated with democracy, whereas high democratic performance is also driving higher state capacity scores. Although Remington (2006) argues that "democratization does not necessarily improve institutional capacity" (p. 289), results from this group of countries show that high levels of democracy did in fact have positive impacts on capacity. Nevertheless, I concur with Remington that a weak state is more susceptible to capture and corruption: The nuance I want to bring is that a weak state most likely will not be

democratic. In the end, it is perhaps reassuring that the direction of causality cannot be established beyond doubt simply through statistical modeling; social reality is more disorderly than the simplified representations these models offer. Because the statistical tests performed in this article fall short of establishing clear temporally causal relationships between variables of interest, further examination through detailed qualitative case studies would likely be necessary to unearth the deeper causal underpinnings behind these empirical relationships.

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Notes

1. Both Bäck and Hadenius (2008) and Charron and Lapuente (2010) use a two-item composite index of state capacity combining “bureaucratic quality” and “level of perceived corruption” from Political Risk Services’ International Country Risk Guide data.
2. Central and Eastern European countries also underwent radical border modifications at the end of the Second World War. With the Treaty of Paris of 1947, changes were enacted between the Hungarian–Slovak and Romanian–Hungarian borders (Transylvania was given back to Romania from Hungary, where it remained only a few years after the Ribbentrop–Molotov Pact). With the Yalta Accords, Poland saw its borders shifted more than 200 kilometers to the west, so that large amounts of territory were redistributed among Ukraine, Belarus and Lithuania, whereas its western boundaries were also relocated farther to the west, taking in former German territory on the Oder–Neisse Line.
3. For an in-depth discussion of index construction, particularly the issues of validity and reliability, see Fortin (2010).
4. In this study, both measures were transformed to vary in the same direction, from autocracy to democracy, and standardized for increments to be on the same scale. Pearson’s r between both indices is .9, and Cronbach’s α is .95.
5. When both the working and the alternative hypotheses are set at 50%.

6. This posterior probability given the data was calculated using the All Cases Design $P(WH|D) = P(WH) / (P(WH) + P(AH) * 1 / (a + c + d + 3))$.
7. An F test indicated that the null hypothesis of no effects should be rejected. The addition of country dummy variables should account for the remaining possibility of intercept differences across units. It is important to note that the addition of these variables can bias downward the coefficients of those variables whose effects are partly cross-sectional.
8. Although no strict minimum rule exists for T , Nathaniel Beck (2001, p. 274) cautions practitioners to be suspicious when time-series cross-sectional (TSCS) methods are used when $T < 10$, although the rule can be more flexible for the number of cross-sectional observations.
9. Five completed data sets (in the form of TSCS) were created, thus imputing missing data five times, all using independent draws, in an attempt to approximate the true distributional relationship between these missing data and the information that is already present in the data set. About 25% of values were missing for tax revenue and contract intensive money at $t = 0$, whereas practically no values were missing after the first year.
10. To detect serially correlated errors, a Lagrange multiplier test was performed. This was accomplished by an ordinary least squares (OLS) regression equation of the fully specified model and then regressing the residuals on all the independent variables and the lagged residuals. Since the coefficient on the lagged residual was statistically significant, I had to reject the null hypothesis of independent errors. From this perspective, it becomes safest to assume that we are in the presence of first-order autocorrelation AR(1).
11. Although some question the linearity of these findings (Mungiu-Pippidi, 2010).
12. These were partially addressed by the addition of a lagged dependent variable. Because of almost perfect collinearity, the measure of distance from each country's capital to Brussels cannot be used together with the least square dummy variable and is not included in Model 3.
13. Further confirming these results, a cross-sectional OLS regression (not shown) explaining the difference in levels of democracy between $t = 0$ and 2005 with the level of democracy at $t = 0$ and difference in state capacity between $t = 0$ and 2005 yielded an adjusted R^2 of .41. With the addition of GDP per capita, the adjusted R^2 rose to .48. In all models, the variable depicting the change in state capacity scores remained statistically significant.
14. However not all agree that modernization is the principal explanatory variable for levels of democracy; see Arat (1988) and Gonick and Rosh (1988).
15. The variance inflation factor used to quantify the severity of multicollinearity is highest for GDP per capita in Model 3 (24.19). Also, the large condition number (indicator of the global instability of regression coefficients) of 17, indicates

many collinear relations among the regressors of Model 3 (Fox, 1997, pp. 350-351). However, even in the face of multicollinearity, OLS estimates remain unbiased (Berry & Feldman, 1985). Hence, it follows that the inflated standard errors should typically lead us to underestimate the significance of the estimators, not overestimate them, lending additional confidence to the results presented in Table 2.

16. Pearson's r between the two variables is .77.
17. These tests were conducted on all five imputed data sets. Similar results were obtained for all data sets with significant F test results up to two lags.
18. Taken at face value, the results of the Granger causality tests involving state capacity seem disappointing. One way to interpret these findings is that Granger causality is limited to linear change. Since we already know from graphical evidence that the relationship between our variables of interest is not linear, it is probable that the tests overlook much of the nonlinear variance at work. Second, this test can be performed only on pairs of variables and may produce misleading results when more than two variables are known to have an impact, such as in the present case. Last, our measurements are imperfect depictions of broad and abstract concepts. We cannot hope to achieve the same kind of precision with such crude measures as with detailed economic data gathered on a weekly basis over long periods of time.

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