Introduction

All happy families are alike; each unhappy family is unhappy in its own way.
Leo Tolstoy, Anna Karenina

Why can some political parties freely reap private gains from the state while others constrain such extraction? The proliferation of sovereign states after the communist collapse in Eastern Europe and the Soviet Union in 1989–91 provides surprising answers that recast the relationship among political parties, party competition, and the state. It demonstrates that the degree to which governing parties can obtain private benefits from public state assets is constrained by robust competition: opposition parties that offer a clear, plausible, and critical governing alternative that threatens the governing coalition with replacement. This prospect induces anxious governments to moderate their behavior, create formal state institutions, and share power – in short, to construct safeguards against the extraction of state resources. Opposition can thus limit discretion – and inadvertently build the state.

Such competition is critical in new democracies, as the development of post-communist states shows. As democratic governing parties established the institutions of market and democracy after the communist collapse, they also opportunistically reconstructed the state: the set of formal institutions that implement policy and enforce legal sanctions.1 Democratic institutions comprise the formal rules and structures that administer citizen obligations (taxes, military service, and so on) and public provisions (infrastructure, rule of law, welfare, defense, and so on). The political control of the state may change (as governments do), but the state administrative apparatus endures as the executive framework. See Lawson, Stephanie. 1993. “Conceptual Issues in the Comparative Study of Regime Change and Democratization,” Comparative Politics, 25, 2 (January): 183–205.

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parties that earlier sought to eliminate authoritarian abuses of the state were all too happy to benefit themselves subsequently while rebuilding state institutions, and to build in continued access to state resources. The result was an exploitative reconstruction of state institutions, or simply put, state exploitation: the direct extraction of state resources and the building of new channels for such extraction. Across the post-communist countries, democratic parties shared the motives, means, and opportunities to exploit the state. However, differences in political competition explain why democracy alone could not stop state exploitation, and why some parties were more constrained than others. Rebuilding the post-communist Leviathan – the structures of the state – thus comprised both competition and exploitation.

Post-Communist Democratic Parties and the State

While the majority of post-communist states remained authoritarian (if no longer communist), full-fledged parliamentary democracies arose in Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. They joined the “happy family” of democracies with functioning free markets, pluralist party politics, and democratic parliaments. Yet even as these countries navigated the treacherous terrain of economic and democratic transition, they also embarked on a path of reconstructing state administration, institutions, and agencies. As important as state development was to prove, however, few domestic political observers or international organizations paid heed to this transformation, in contrast to the close attention paid to economic and democratic transitions.

Away from the spotlight, democratic parties strove to ensure their own survival – the long-term ability to contest elections and enter office. Defying Tolstoy, political parties in post-communist democracies differed a great deal from other democratic parties in their relationship to the state. They did not use strategies of survival widely observed in earlier West European or Latin American democracies, such as the building of clientelist networks that exchange club goods for voter support or the “encapsulation” of voters through extensive mass party organizations that build loyal constituencies. Post-communist parties did make programmatic appeals – but

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2 Many of the post-1989 democratic parties had initially arisen out of the opposition to the communist regime.

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did not rely on them to ensure their ability to contest elections in the long term. Nor did they simply prey on the state, extracting as much as possible without building new state institutions of public good provision. They also explicitly rejected their communist predecessors’ strategy of eliminating political competition and fusing the state with the ruling party.

Instead, post-communist democratic parties relied on opportunistic state reconstruction, establishing longer-term access to state resources where possible. Such reconstruction meant renovating outdated and porous communist-era state institutions and creating the new legal and regulatory frameworks for market and democratic competition. New institutions were frequently established on the basis of existing communist state structures: Civil service laws, for example, augmented existing labor codes. Governing parties also built entirely new state institutions of public good provision: creating new agencies and ministries, defining the domains of state oversight and regulation of markets, and enforcing new economic and political rules. State rebuilding thus resembled bricolage: using both new institutional bricks and materials leftover from the communist state structures.4

Where they could, political parties also exploited the state.5 Parties politicized the privatization and distribution of state assets for their own benefit and skimmed directly, as part of a larger system of an unregulated and unrestricted party funding. They delayed or enfeebled formal state institutions of oversight and regulation, and expanded the discretionary (uncontrolled and unmonitored) sector of state administration (such as extrabudgetary funds or state institutions removed from public oversight). Most of these new institutions were established in the wake of economic and political reforms. As a result, the ostensible building of democracies and markets was inextricably linked to state exploitation and side benefits for the political actors in charge. The prizes included public contracts, financial transfers, and built-in channels that allowed future gains.6

The key constraint on such exploitation was robust party competition. Where the opposition parties were clear and plausible governing alternatives and powerful critics, governing parties did not take advantage of


the full opportunities for private gain in state reconstruction. Instead, they gained less from privatization processes, rapidly built formal institutions of monitoring and oversight, and controlled the growth of state administration. Where the opposition was vague, implausible, and uncritical, governing parties more freely exploited the state, both by directly obtaining resources and by building in enormous discretion to extract in the future.

We thus see distinct patterns of state exploitation across the consolidated post-communist democracies and free markets of Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. There is pronounced variation across three key state domains that fell under the direct control of governing coalitions: a) the creation of formal state institutions of oversight and monitoring; b) the discretionary (unmonitored and unregulated) expansion of state administration employment, such as the growth of extrabudgetary agencies and funds; and c) the appropriation of privatization profits and unregulated public subsidies. Public opinion polls and World Bank governance rankings reveal a similar pattern.\(^7\) A simple additive index summarizes the variation across these three domains, shown in Table 1.1.

As Table 1.1 indicates, two clusters arose as early as 1993. In one, including Bulgaria, the former Czechoslovakia, and Latvia, governing parties extracted material gains, and deliberately delayed the introduction of oversight and regulation of state assets, with little effort to transform the state into a more rational-bureaucratic organization.\(^8\) Accusations surfaced of deliberate sabotage of state effectiveness and transparency.\(^9\) These same parties expanded state administration employment through discretionary hiring and the creation of numerous extrabudgetary funds and agencies. They also skimmed profits from privatization revenues and deliberately


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Table 1.1. *Summary of State Exploitation, 1990–2002*

<table>
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<tr>
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<tbody>
<tr>
<td>Hungary</td>
<td>In place by 1997</td>
<td>138</td>
<td>Limited donors, highly regulated</td>
<td>1.4</td>
</tr>
<tr>
<td>Estonia</td>
<td>In place by 1996</td>
<td>158</td>
<td>Limited donors, highly regulated</td>
<td>1.6</td>
</tr>
<tr>
<td>Slovenia</td>
<td>In place by 1997</td>
<td>214</td>
<td>Limited donors, highly regulated</td>
<td>2.1</td>
</tr>
<tr>
<td>Lithuania</td>
<td>In place by 1996</td>
<td>239</td>
<td>Limited donors, highly regulated</td>
<td>2.4</td>
</tr>
<tr>
<td>Poland</td>
<td>In place by 1998</td>
<td>244</td>
<td>Limited donors, increasingly regulated</td>
<td>4.4</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>Begun in 1998</td>
<td>400</td>
<td>Sources unrestricted, unregulated</td>
<td>7.0</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Begun in 2001</td>
<td>300</td>
<td>Sources unrestricted, regulation after 2000</td>
<td>6.0</td>
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<tr>
<td>Bulgaria</td>
<td>Begun in 2000</td>
<td>431</td>
<td>Sources unrestricted, unregulated</td>
<td>8.3</td>
</tr>
<tr>
<td>Latvia</td>
<td>Begun in 2000</td>
<td>467</td>
<td>Sources unrestricted, unregulated</td>
<td>8.7</td>
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**Note:** Index: additive and unweighted. Scoring: 2 points for formal state institutional building beginning after EU conditionality set in 1998 + % increase in state administration employment/100 (avg: 287%) + 2 points for party funding (1 for unrestricted sources, 1 for lack of regulation). Mean: 4.61. Standard deviation: 2.93. Variance: 8.62.

...built lax party financing regimes that were neither transparent nor regulated – state firms often contributed to party coffers, as did local governments, while state-owned banks offered preferential credits. All four countries did little to reform the state until 1998, after the European Union (EU) made improved state administration a condition of accession.

The other cluster is led by Estonia, Hungary, and Slovenia, and includes Lithuania and Poland. Here, political parties rapidly built state institutions of monitoring and oversight, constraining discretionary access to state resources. Even if they were not always entirely successful (as in Lithuania or Poland), these countries embarked on far earlier and more ambitious...
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reforms of formal state institutions and regional devolution, showing smaller increases in state administration employment and extensive regulation of party financing. They were the first to introduce formal institutions of monitoring and oversight, limit the discretionary expansion of the state administration, and make party finances more transparent and regulated.10

In short, despite roughly similar levels of political and economic reform, political parties were able to exploit the state far more in Bulgaria, the Czech Republic, Latvia, and Slovakia than in Estonia, Hungary, Lithuania, Poland, or Slovenia.

We thus observe both a shared pattern in post-communist democracies of self-serving state reconstruction – and considerable variation in the extent to which the state was exploited. This variance in the willingness of post-communist democratic parties to place limits on their own exploitation of the state suggests that it is not democracy per se that matters.

Shared Motives, Means, and Opportunities

For the new democratic parties that came to power after the communist collapse, the challenges of building new markets, democracies, and states and at the same time ensuring their own survival as guarantors of the new democratic order were formidable. As Stefano Bartolini notes, these “differing demands of party building, competition for votes and regime founding or defending are, to a large extent, incompatible.”11 The transition to democracy created motives, means, and opportunities for these parties to exploit the state as they balanced these roles.

The chief motives for state exploitation consisted both of short-term survival and long-term commitments to democracy. New democratic parties faced enormous uncertainty and had few guarantees of material or electoral support. As we will see in the next chapter, these nascent parties were extremely fragile, possessed few members or local organizations, and had to contend with high electoral volatility. In an age of expensive media campaigns, they had few material resources and no certain sources of income. Nor did they have the ability to form extensive organizational networks, which could have allowed them to pursue other strategies of survival, such

10 Poland was less successful at constraining state exploitation, as we will see in Chapter 2, but is still in the cluster of early adopters of formal institutions, slow-growing state administrations, and transparent party financing.
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as clientelism. Meanwhile, the resources of the state were the most stable source of funds needed for election campaigns and party maintenance.

At the same time, these new democratic parties’ greatest fear and biggest challenge was avoiding a relapse into an authoritarian monopoly over both the economy and the polity. They faced “the nightmare of elimination altogether: the return to power of a communist apparatus that would snuff out not only privatization, but democracy as well.”12 As a result, the dilemma for budding democratic parties was that they had to commit themselves to fierce new political competition – and to survive it. The temptation to raid the states they governed, and to build in future discretionary access to these resources, was clear – but so was the imperative to preserve democratic institutions.

The means at the parties’ disposal consisted of their enormous policy-making role. Political parties were responsible for leading these countries out of the communist morass and through difficult and enormous institutional and political transformations.13 They played the central role in policy making and state building after the collapse of communism, with access both to the reconstruction of formal state institutions and to the distribution of the states resources. Given the weakness of civil society, presidents,14 and existing legal institutions and the enormous power given to political parties in parliamentary systems, governing parties freely decided how to liberalize the economy, privatize state holdings, and reform state structures – and what form these institutions would take. In short, the very democratic actors who could extract from the state were in charge of rebuilding it.

The opportunity for exploitation arose from both the hereditary weakness of the communist state and the lack of external restraints on party actions. Where rulers elsewhere inherited constraining institutions, post-communist political actors first had to dismantle an economic and political monopoly. During the nearly five decades of its rule, the communist party ran the state administration as its personal fiefdom: The state was the chief bank account and political tool of the party, a source of public largesse and private benefits. Formal laws and parallel organizational hierarchies

13 Beginnings mattered a great deal; however, they did not imply path dependence, since few reinforcement or lock-in mechanisms existed. Early competition thus set, but did not determine, the trajectories of state emergence.
14 The one country where a president played a more powerful role was Poland – but his powers were severely circumscribed, and the position made largely ceremonial, by 1995.
upheld the party control of the state.\textsuperscript{15} Party apparatchiks ran most state institutions, so that few “real” bureaucrats existed, while the planned economy made most workers into state employees.\textsuperscript{16} While the degree of direct party control over the economy and state varied,\textsuperscript{17} the generally low differentiation of state and party functions made “political clout the foundation for economic control.”\textsuperscript{18} The era of communist abuse “hollowed out” the state, leaving its institutions both vulnerable and unable to prevent extractive incursions.\textsuperscript{19}

The fall of communism in 1989–91 formally abolished this long-standing fusion of the ruling authoritarian party and the state. The communist parties themselves were forced to exit from power and began the arduous process of adaptation to multiparty democracy.\textsuperscript{20} Their monopoly over state resources ended. In embarking on ambitious programs of abolishing state control of the economy and the polity, new democratic governments committed themselves to privatizing state holdings, selling off state enterprises, and eliminating laborious economic planning. The hope was that without an authoritarian monopolist to abuse it, the state could become a more apolitical and effective administrative force and a buffer against a slide into authoritarianism.\textsuperscript{21}

At the same time, however, both international advisers and domestic policy makers focused on the challenges of democratic and economic transformations rather than on the state.\textsuperscript{22} Many reformers, international advisers, 

\textsuperscript{15} For example, all state hiring above a certain level was vetted by regional and central party committees. See Kaminski, Antoni. 1992. An Institutional Theory of Communist Regimes. San Francisco: ICS Press, p. 164.

\textsuperscript{16} The party also controlled the \textit{nomenklatura} system: an extensive list of positions vetted by the party.

\textsuperscript{17} In Hungary, the separation of political power and legal authority by the 1980s meant that as long as state officials were acting within legal limits, party officials had less influence on their everyday decisions.


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...and international organizations saw the economy as a separate problem from institutional development, and the state itself as a source of inefficiency and corruption. While a considerable literature addressed the development of representative and constitutional institutions, it neglected the (re)building of the state, and "the dominant view among reformers and their advisors during the early transition period was that because [state] institutions would necessarily take time to develop, it was best to focus first on liberalization and privatization." If anything, the prevalent but vague assumption was that the state would now shed employees and functions, encouraging both democracy and markets to flourish. For all their


assistance in consolidating markets and democracies, neither the financial organizations involved, such as the International Monetary Fund (IMF) or the World Bank, nor the regional powerhouses, such as the EU, paid attention to state administration until 1996–7, well into the post-communist era. In short, the huge project of dismantling the extant communist state offered little resistance to incursion by political actors, and few external constraints prevented its exploitation.

**Explaining the Variation: Robust Competition**

In the absence of existing institutional safeguards, international attention, or domestic watchdogs, the main constraint would have to come from the political parties themselves and their interactions – specifically, party competition. Yet since such competition often leads parties to grasp for state resources to gain a competitive edge, how can it prompt political actors to protect the state? This question is at the heart of both theoretical discussions and empirical analyses of democratic competition.  

To constrain exploitation, competition had to threaten the parties in power with replacement. It had to present a credible alternative both to coalition partners and the electorate without acting as a threat to the system of competition itself. The more vigorous the opposition, the more likely it was to lead the governing parties to moderate their rent seeking, anticipate an exit from office by building formal constraints, and coopt the opposition through power-sharing measures that limited any one party’s ability to gain private benefits from the state. In short, such an opposition limited the  


As the next chapter shows, the threat of replacement shows a curvilinear relationship to state exploitation: If it threatens to eliminate the governing parties entirely, they will prey upon the state. If there is no competition, the party can fuse itself with the state entirely.