

# TABLE OF CONTENTS

Abbreviations .....	viii
List of Tables and graphs .....	x
Acknowledgements .....	xiii
Introduction .....	1
Chapter 1 State- and institution-building - a framework for analysis .....	11
1.1 The state and state-building definitions and debates .....	11
1.2 Fiscal perspectives on the state .....	17
1.3 Regimes and states: the missing link in the transition debate .....	21
1.4 Potential contributions of post-Soviet cases to general theories of state-building .....	23
Chapter 2 A framework for assessing states: size, capacity, and quality ..	29
2.1 The three aspects of the state .....	29
2.2 States as problems and solutions under various regimes .....	31
2.3 The size of the state .....	34
2.4 State capacity: decision-making, implementation, and control .....	36
Chapter 3 The dynamic of change: state-building as institution-building .	45
3.1 State-building as institutional change—deterioration and re-building .....	46
3.2 The costs and risks of institutional change .....	47
3.3 Types of institutional change .....	49
3.4 The importance of formal-informal discrepancies .....	51
Chapter 4 A model of post-Soviet state-building trajectories .....	55
4.1 The causal model .....	55
4.2 Individual causal factors .....	58
4.3 Four state-building trajectories .....	69
4.4 Summary .....	73

Chapter 5 State-building in the post-Soviet region .....	79
5.1 The Soviet state and its fiscal system .....	79
5.2 Institutional deterioration: <i>perestroika</i> and the break-up of the Soviet Union .....	83
5.3 State-building in the post-Soviet 'universe' .....	85
5.4 Exploring some quantitative relationships: level of development and political consolidation .....	93
5.5 Summary .....	104
Chapter 6 Ukraine—from Soviet breakdown to disordered independence .....	109
6.1 From Soviet republic to independent Ukraine .....	111
6.2 The great depression: economic crisis after independence .....	112
6.3 The challenge of nation-building .....	114
6.4 Struggles for power and institutional weakness .....	115
6.5 A fiscal system in crisis .....	127
6.6 The first steps of state-building .....	132
Chapter 7 A new trajectory taking shape .....	137
7.1 Economic stabilization and virtualization .....	138
7.2 The bid for presidential consolidation .....	139
7.3 State-society relations—the rise of political-business groups and weak democratic accountability .....	141
7.4 External factors .....	148
7.5 Stabilizing the fiscal system .....	149
7.6 Shaping and distorting the new state .....	167
Chapter 8 The second transition in Ukraine .....	175
8.1 From hybrid regime to unconsolidated democracy .....	176
8.2 Economic recovery and socio-economic policies of the new government .....	185
8.3 The power of civil society and the continuing importance of opaque groups .....	187
8.4 External influences on the rise .....	188
8.5 Fiscal developments: reforms and revelations .....	190
8.6 From Kuchma to Yushchenko: re-tooling the state .....	200
8.7 Summary: the state-building process in Ukraine as reflected in the fiscal sphere .....	202
Chapter 9 Averting institutional change: the case of Belarus .....	211
9.1 Political developments: from liberalization to autocracy .....	212

9.2 Economic developments: preserving the command economy .....	215
9.3 Belarus' international situation .....	219
9.4 State-society relations in Belarus .....	220
9.5 Fiscal policies .....	224
9.6 Belarus: the strong state that does not want to be a state .....	232
Chapter 10 Lithuania: moving towards Western models .....	243
10.1 Political developments: early elite reconfiguration and after .....	244
10.2 Economic developments: the great leap from communism to capitalism .....	250
10.3 State-society relations in Lithuania .....	253
10.4 Fiscal and budgetary system .....	259
10.5 State capacity and its determinants in Lithuania .....	274
Chapter 11 The 'authoritarianizing' route to recovery: the case of Russian tax reform .....	285
11.1 The stage: political power and oligarchic groups .....	286
11.2 The economic background to reform .....	289
11.3 State-society relations .....	292
11.4 Fiscal crisis and tax reform: surveying explanations .....	294
11.5 From drag to leap: the gestation and eventual success of tax reform .....	295
11.6 From prolonged deterioration to unfinished recovery: the Russian path of state-building .....	307
Chapter 12 Conclusion .....	315
12.1 States as problems and solution .....	316
12.2 Institutional deterioration and the importance of the political regime .....	321
12.3 Setting the background: legacies, international integration, and the level of development .....	328
12.4 Wider implications: conceptualizing institutional change, regime change, and state-building .....	332
Appendix .....	341
Bibliography .....	355
Index .....	375

# LIST OF TABLES AND GRAPHS

6	Table 1:	Basic structural indicators
87	Table 5.1:	Rules—basic statutory tax rates, 1992 to 2004
113	Table 6.1:	Macroeconomic indicators, 1991–1995
122	Table 6.2:	Results of the 1994 presidential elections
124	Table 6.3:	Public trust in leadership, 1992
125	Table 6.4:	Expectations concerning the state, 1992
125	Table 6.5:	Ukraine: Expectations of the state, December 1994
126	Table 6.6:	Levels of trust in public institutions, Ukraine, February–March 1994
131	Table 6.7:	Tax rates and bases in 1992
138	Table 7.1:	GDP growth in selected post-Soviet countries, 1995–2000
144	Table 7.2:	State responsibility for social welfare and industry
146	Table 7.3:	Results of the presidential elections, 1999, first and second rounds
148	Table 7.4:	Prime ministers and ministers of finance, 1994–2001
151	Table 7.5:	Share of different taxes in total revenue
153	Table 7.6:	Income tax rates since 1996
154	Table 7.7:	Tax arrears in millions of Hryvnia (end of period)
155	Table 7.8:	Payment arrears in millions of Hryvnia, 1996–2000
182	Table 8.1:	Presidential elections 2004, first round
185	Table 8.2:	Prime ministers and finance ministers, 2001–2005
185	Table 8.3:	GDP growth in selected post-Soviet countries
195	Table 8.4:	Tax and pension fund arrears, 1998–2004
195	Table 8.5:	Wage and pension arrears, 1999–2004
198	Table 8.6:	Revenue, expenditure, and deficit, 2002–2005
215	Table 9.1:	Belarus: Prime ministers, ministers of finance, and heads of the state control committee, 1990–2005

- 219 Table 9.2: Income and poverty in Belarus and neighboring countries
- 249 Table 10.1: Lithuania—list of prime ministers, heads of state, and of the state tax inspectorate
- 251 Table 10.2: Lithuania: Ministers of finance
- 261 Table 10.3: Basic tax rates in 1993, 2001, and 2003
- 266 Table 10.4: World Bank, Investment Climate Survey, 2002
- 288 Table 11.1: Distribution of seats in the Duma after the 1999 elections
- 288 Table 11.2: Russian prime ministers, 1992–2005
- 296 Table 11.3: Ministers of Finance of the Russian Federation, 1992–2005
- 299 Table 11.4: Tax rates changes suggested in Draft Tax Code
- 300 Table 11.5: Heads of the State Tax Service/tax ministers of the Russian Federation
- 319 Table 12.1: Human Development Indicators for the post-Soviet region, 1987–2003
- 33 Graph 2.1: The dual challenge of state-building
- 35 Graph 2.2: Assumed relationship between state revenues and state capacity
- 56 Graph 4.1: Macro model of factors shaping state formation
- 57 Graph 4.2: Mutual constitution of actors and institutions
- 63 Graph 4.3: Political regime and state institutions-schematic sequence
- 70 Graph 4.4: Model of four state-building trajectories
- 84 Graph 5.1: Soviet budgets from 1980 to 1990
- 88 Graph 5.2: Government revenue in post-Soviet countries, 1993–2003
- 88 Graph 5.3: Government expenditure in post-Soviet countries, 1993–2003
- 89 Graph 5.4: Government deficits in post-Soviet countries, 1993–2003
- 89 Graph 5.5: Government revenue by region, 1993–2003
- 90 Graph 5.6: Government expenditure by region, 1993–2003
- 90 Graph 5.7: Government deficit by region, 1993–2003
- 94 Graph 5.8a: Soviet level of development and fiscal size during transition
- 94 Graph 5.8b: Soviet level of development and fiscal size without outliers (Georgia, Uzbekistan)
- 95 Graph 5.9: Soviet level of development and fiscal deficits during transition

- 96 Graph 5.10: Levels of development and share of revenue to GDP, early 2000s
- 98 Graph 5.11: Relationship between political regime and fiscal deficits during transition
- 99 Graph 5.12: 1985 level of development and 2000 GDP level
- 99 Graph 5.13: Regime and GDP level in 1999 (1989=100)
- 100 Graph 5.14: Electoral process and GDP level in 2003 (1989=100)
- 101 Graph 5.15: Relationship between level of development and perceived corruption
- 102 Graph 5.16: Relationship between regime and perceived corruption
- 103 Graph 5.17: Regime consolidation and spending on education and health
- 143 Graph 7.1: Levels of trust in public institutions, 1994–1999
- 178 Graph 8.1: Share of seats according to list vote, March 2002
- 179 Graph 8.2: Share of seats according to list and majoritarian vote, March 2002
- 179 Graph 8.3: Share of seats after re-distribution of factions, fall 2002
- 189 Graph 8.4: International steel prices, 2000–2005
- 221 Graph 9.1: Trust in Belarus and Ukraine, 2000
- 256 Graph 10.1: Trust in institutions, Lithuania and Ukraine, 1993–1994
- 256 Graph 10.2: Trust in institutions, Belarus, Ukraine, Lithuania, 2000–2001
- 257 Graph 10.3: Trust in institutions, Belarus, Ukraine, Lithuania, and Russia, 2004–2005
- 290 Graph 11.1: Fluctuation of world oil prices, 1998–2005
- 293 Graph 11.2: Levels of trust in public institutions, 2004–2005
- 317 Graph 12.1: The state as a problem and solution – Belarus, Lithuania, Russia, Ukraine
- 34 Matrix 2.1: Regime types and their assets and risks for the state realm
- 50 Matrix 3.1: Types of (positive) institutional change