ВЫСШАЯ ШКОЛА ЭКОНОМИКИ
НАЦИОНАЛЬНЫЙ ИССЛЕДОВАТЕЛЬСКИЙ УНИВЕРСИТЕТ

ПРИ УЧАСТИИ ВСЕМИРНОГО БАНКА

XVI АПРЕЛЬСКАЯ МЕЖДУНАРОДНАЯ НАУЧНАЯ КОНФЕРЕНЦИЯ

по проблемам развития экономики и общества

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(семинар, организуемый Институтом статистических исследований и экономики знаний НИУ ВШЭ)

СЕМИНАР «ТРЕУГОЛЬНИК ЗНАНИЙ»: КООПЕРАЦИЯ В СФЕРЕ НАУКИ, ОБРАЗОВАНИЯ И ИННОВАЦИЙ

(семинар проводится под эгидой Рабочей группы ОЭСР по политике в сфере инноваций и технологий)

СТРАТЕГИИ В СФЕРЕ ВОДНЫХ РЕСУРСОВ

ФОРСАЙТ В АВИАКОСМИЧЕСКОМ СЕКТОРЕ: ВОЗМОЖНОСТИ ДЛЯ РОССИИ

ПОЛИТИЧЕСКИЕ ПРОЦЕССЫ

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STATE CAPACITY, DEMOCRATIZATION AND PUBLIC POLICY[1]

One of the enduring puzzles of political science is how political systems get better. One of the facets of the "getting better" question is how do government organizations improve their capability to carry out their tasks in a qualitatively superior fashion. Presumably, states characterized by greater capacity are able to execute governmental policies better than states characterized by lesser capacity. But then the immediate question is how do states attain greater state capacity to do things?

A popular focus for answers to this question involves democracy. We know that older democracies tend to have effective bureaucracies and that new democracies do not share this tendency.[2] It follows, then, that it is conceivable that the level of democracy is in some way related to bureaucratic effectiveness. The most likely causal

[1] Prepared for delivery at the XVI April International Academic Conference on Economic and Social Development, Higher School of Economics, Moscow, Russian Federation.

[2] Keefer [2007] regresses the duration of periods of continuous competitive elections for 65 to 96 political systems on a variety of governance variables. The states with longer episodes of competitive elections score higher on avoiding corruption, adhering to the rule of law, bureaucratic quality, and gross secondary school enrollment. The systems with continuous elections are also more likely to have press freedom and lower government spending on public employee spending and public investment as shares of gross domestic product. These findings control for population and area size, GDP per capita, percentage of the population that is young and rural, primary school enrollment, and total education spending/GDP. Back and Hadenius [2008, p. 6] show 1985–2002 plots for regionally averaged scores for democracy (combining Polity and Freedom House measures) and administrative capacity (combining measures for corruption avoidance and bureaucratic quality). The Western European/North American plot shows democracy scores roughly at the maximum 10 level and administrative capacity scores roughly in the 8–9 point level. Five other regional aggregations show average democracy scores that vary from 2 to slightly less than 7. None of the administrative capacity scores vary much over time and remain centered around the 4–5 interval. The one exception to the variance generalization is the Eastern European/ Central Asian "region." The plot for this aggregation begins at a low level for democracy (circa 2) and improves to about a 6 on the democracy scale. The corresponding administrative capacity score for this grouping begins around 5 in 1985, moves to an average of 6 around 1990 and then declines to about a 4 score by 2002. Two implications of these findings is that 1) autocracies, by and large, do not score highly on administrative capacity and 2) regions with newly democratizing political systems, on average, also do not score highly on administrative capacity.

mechanism is the extent of political competition. If you can throw the rascals out, politicians have strong incentives to provide government services in exchange for popular approval and votes. Politicians, then, do not provide governmental services directly but they make use of the state to provide public good services. They also have some incentive and ability to monitor and change the management of ineffective public good provision.

Conversely, new democracies are not expected to work like old democracies in the sense that they are likely to be imperfectly competitive. Parties are still forming. Voters are unfamiliar with their role in the new political system. Whoever controls the government is likely to have a resource edge over other aspirants for governmental control. Political institutions, in general, remain less than fully developed. If democracy is a prime mover of better government provision of public goods, one would not expect new democracies to work the same way as older, established democracies. And, evidently, they do not. Keefer [2005], for instance, shows that public employment, rule of law, bureaucratic quality, and secondary school enrollment are all higher, and corruption and public investment lower, in states which have had a greater than the median number of continuous elections.

But that leaves open the question of what happens to improve governance as new democracies become older democracies. Is it more intensive democratization? Is it merely institutional aging? Is it increasingly higher expectations on the part of the public? Or, is it due to the other things that separate older democracies from new ones – such as affluence, industrialization, and economic development? Alternatively, might the answer be much simpler? Maybe it is a matter of a variable number of obstacles to transition. The fewer the obstacles, the more probable is the transition.

We review several possible arguments pertaining to this question in the specific context of Eastern Europe. First, one may argue that the relationship between democracy and bureaucratic effectiveness is J-curved. In the movement from authoritarian regimes to democracies, some effectiveness is lost but gradually regained as democracy becomes more entrenched. Another argument suggests that politicians in new democracies are unable to market themselves broadly as candidates and fall back on more narrow, clientelistic arrangements until they are able to claim broader representation. A third argument's premise is that all new democracies are not playing on a level field. Some have advantages in attaining stronger governance and economic decentralization based on what they did as autocracies. It is these states that are more likely to do better over time. Of the three, empirical support is strongest for the third emphasis on legacy factors predicting movement toward stronger governance capacity for only some relatively favored, East European states. Otherwise, the data do not support the premise that democratization, as opposed to higher levels of democracy, has strengthened state capacity in Eastern Europe.

The nonlinear argument

While most of the empirical work on the impact of democracy on governance quality report positive and linear results, Back and Hadenius [2008] contend that the relationship between democracy and state capacity is J-curved.[3] Autocratic states are capable of creating sufficient state capacity to control the state adequately. As these states begin to democratize, they lose some of their capacity to control. Early on, the democratization process is just beginning. Not much genuine competition among full-fledged political parties battling for electoral victories can be expected. Whoever is in power is likely to possess a decided edge in access to resources. There may also be strong temptations to manipulate the bureaucracy for patronage purposes. Corruption levels could increase. If political competition is the main driver, it is not until fairly high levels of democracy are attained that a strong relationship between democracy and capacity can emerge. Only then can democratic institutions be expected to work to full effect.

This argument for what amounts to a long, delayed effect is not implausible. Yet it relies very heavily on the assumption that autocracies or some autocracies possess relatively strong governance capabilities that are lost as democratization ensues. Back and Hadenius had Middle Eastern autocracies in mind (based on their discussion) but in point of fact few autocracies can claim high bureaucratic effectiveness scores. Singapore may be the principal exception. The scatterplot Back and Hadenius show for 2002 indeed looks more like a wedge-shaped putter – that is a broad band of less than fully effective bureaucracies arrayed across various democratic levels with a thin column of highly democratic and bureaucratically effective states rising on the right-hand side of the figure – than a J-curve.[4]

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[3] For linear, positive findings and mainly restricted to the relationship between democracy and corruption, see [Treisman, 2000; 2007; Bokhara et al., 2004; Mitchell, Mittendorf, 2004; Gerry, Thacker, 2004; Shen, Williamson, 2005; Blake, Martin, 2006; Saha et al., 2009; Bhattacharyya, Hoder, 2010]. A few earlier studies [Sandholtz, Koetzle, 2000; Paldam, 2002] found no relationship. Earlier curvilinear arguments for the relationship between democracy and corruption are found in Montinola and Jackman [2002] and Sung [2004]. Nonetheless, it is quite possible that these relationships are much more complicated than we realize by their interaction with economic processes. See, for instance, [Chen, Williamson, 2005; Jong-sung, Khagran, 2005; Drury et al., 2006; Saha et al., 2009; Bhattacharyya, Hodler, 2010; Arezki, Gylfuson, 2013; Mathur, Singh, 2013].

[4] Another problem is that Back and Hadenius show a static scatterplot for one year while their argument is for a dynamic J-curve process. That is, they expect relatively highly effective autocracies to democratize and lose bureaucratic effectiveness for some time until sufficient levels of democracy are achieved. All of the states scoring low on democracy in any given year are not necessarily new democracies. In this respect, a static scatterplot may be quite misleading.

Still, there is no great need to argue about the shape of the world scatterplot. For our immediate purposes, the question is whether East European political systems scored initially high on bureaucratic effectiveness and low on corruption before they began to democratize after 1989. Figures 1 and 2, depicting average scores for east European states on democratic level, bureaucratic effectiveness, and corruption, help answer this question.[5] Figure 1 shows that bureaucratic effectiveness was not high, on average, prior to 1989. Most of the gains in effectiveness may have been achieved between 1989 and 1990. After 1990, more improvement, again on average, was achieved, but not all that much.

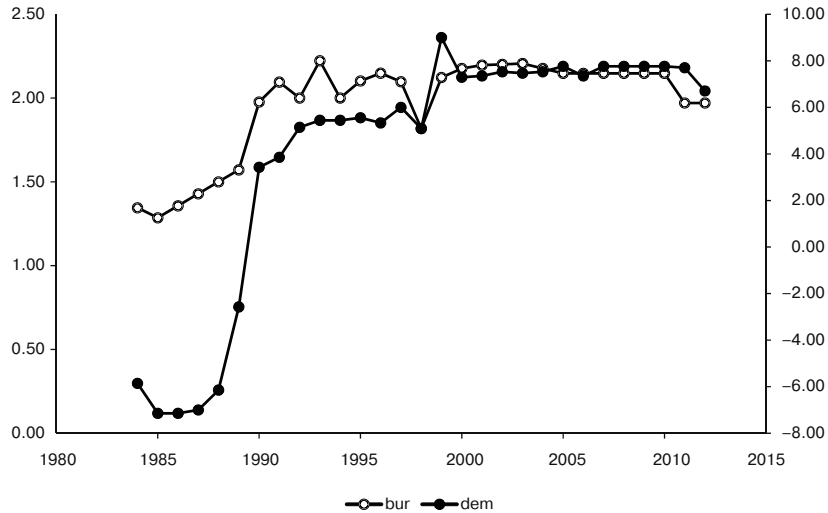

Fig. 1. Average scores on bureaucratic effectiveness and level of democracy for Eastern Europen states, 1984–2013

Figure 2 shows the aggregate gains in democracy levels and decreased corruption in East Europe, whereby lower levels of the corruption avoidance measure in-

[5] Bureaucratic Effectiveness and Avoidance of Corruption are measured from the International Country Risk Guide produced by Political Risk Services, evaluating both dimensions by experts based upon both case study analysis and available data. Bureaucratic effectiveness is measured on a 4 point scale where 4 is a particularly strong and effective bureaucracy and 0 is one that is ineffective. Avoidance of Corruption is measured on a 6 point scale where 6 represent the absence of corruption within the political system. Democracy values are taken from the 21 point Polity IV composite democracy-autocracy measure [Gurr et al., 2014], where –10 is a full autocracy and 10 is a full democracy.

dicate greater corruption. While corruption was not absent prior to 1989, it then decreased for a few years, before settling to a new floor around 2002. Around the same time, average gains in democracy levels seemed to plateau a bit earlier in 2000. Nonetheless, stabilization in democracy levels, contrary to the expectations of Back and Hadenius, does not seem to result in a steady decline in corruption in Eastern Europe. Instead, corruption remains somewhat stable, and at levels greater than what was experienced by communist regimes in Europe during the1980s. Given the avoidance of corruption measure does not return to the higher levels of the pre-Cold War period, there is an absence of strong evidence for an apparent non-linear relationships in the Eastern European region. Indeed, during the onset of the democratization process, average corruption in the region was at its lowest point.[6]

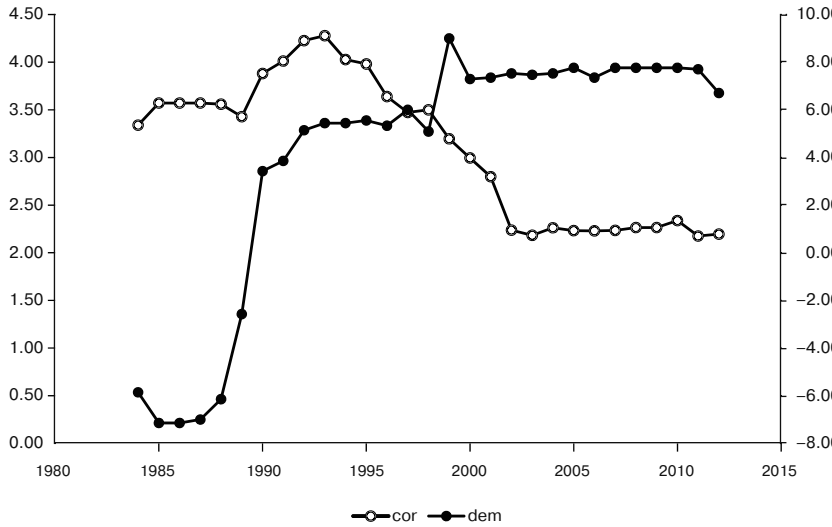

Fig. 2. Average levels of democracy and corruption avoidance for East European states, 1983–2013

[6] Of course, averaged numbers could disguise a mixture of very high and very low scores but that is not the case with these data. Data are available initially for 7 states (Albania, Bulgaria, Hungary, Poland, Romania, the Soviet Union, and Yugoslavia) but rise to 17 in the 1990s. All but one state (of the seven) is within about a half point of the 3,57 average score for corruption in 1985. There is a bit more dispersal on the bureaucratic effectiveness indicator that averaged 1,29 in 1985. Four states scored 1.0, one state (Hungary) scored 3.0, another 2.0 (Bulgaria) and one (Romania) had a zero score in that year.

The missing credibility/proneness to clientelism argument

Keefer [2005; 2007; Keefer, Vaicu, 2008] argues that the "young versus old" democracy problem is traceable to the lack of credibility politicians in new democracies possess. The politicians begin by making broad electoral promises to voters that are found to be unpersuasive. To stay in the game, politicians then fall back on making promises to less broad groups and patrons. Clientelistic strategies then lend themselves to greater corruption, exploiting government employment for political gain and less effectiveness, and, in general, underprovide public goods. As a democracy ages and experiences more competitive elections, these problems are ironed out gradually as politicians become more creditable to broader groups of voters.

The problem with this interpretation is that it is not clear that clientelistic strategies are the fallback position. A better case could be made that politicians in new democracies are more likely to begin with clientelistic strategies. They initially represent narrow groups because that is what comes as natural or instinctive at the outset. Broader promises to wider groups with democratic age may characterize some political systems. In other political systems, the clientelistic strategies may persist.

O'Dwyer [2004], writing about East European state specifically, argues that post-communist states faced a number of common problems. Civil society had long been suppressed. Citizens had good reason to mistrust their now delegitimized political institutions. Newly democratic and post-communist states, therefore, had special problems constructing viable party competition or even parties that could hope to appeal to large portions of the population. It was more tempting to build dominant parties based on patronage and recruitment to state jobs. Parties could thereby sustain their close supporters and keep them available for party tasks. Bureaucracies were thus likely to be both expanded and politicized. As a consequence, their effectiveness should be restricted.

It does not really matter for our purposes whether clientelistic strategies are plan A or plan B. What is more to the point is that post-communist states had some propensity towards focusing on party patronage and less on constructing the type of party-based, political competition environments that are thought to encourage bureaucratic effectiveness and discourage corruption.[7] Yet Figures 1 and 2 suggest that some gains in bureaucratic effectiveness and temporarily less corruption were achieved nevertheless. Such outcomes would suggest that either the clientelistic proneness of post-communist states was variable or other mitigating factors were

[7] It is also certainly conceivable that new decision-makers in newly democratizing systems have a learning curve in developing strategies for influencing governmental bureaucracies that were well-entrenched prior to the change in regime type.

at work. Either way, some states in Eastern Europe must have become less patron-client oriented than did others. That realization suggests that we could use an argument that is less general than a nonlinearity process or generic, post-communist, patronage proneness.

The legacy argument

Ekiert (no date) contends that it is a mistake to treat Eastern European states as if they were all identical, single party states kept in power by Soviet troops, nor did their political-economic transformations only begin in 1989–90. Each state possesses a different history of changes, conflicts, and institutional breakdowns that have influenced subsequent reform attempts. But rather than go into the details of each country's particular type of path dependence, Ekiert divides Eastern European states into three groups. The first group had the fewest problems making the transition from communist to democratic-capitalist systems because most conditions favored a relatively easy transition.

In Hungary, Poland, the Czech Republic, and Slovenia, changes had begun before the Wall came down. Economic experimentation had moved their economies toward more liberalized and decentralized systems. Privatization took place quickly. Poverty and inequality were limited. Integration with western economies and international organizations was carried out relatively smoothly. Civil societies re-emerged. Democratic electoral systems and human rights went uncontested. Free media also emerged. Nostalgia for the security of communist rule was less evident.

A second group, termed Balkan states (Bulgaria, Romania, Albania, and Croatia) plus Slovakia, fared less well in the transitions because they were not like the first group. In different ways, they were less prepared to move away from their older niches. Less economic experimentation, less inclination to decentralize, less civil society, less integration with the west, more poverty and inequality characterized this group. As a consequence, their transitions have been more uneven and slower-paced. The third group is composed of states that once were part of the Soviet Union. Essentially, some of these states are more like group one (the Baltic states) and the rest resemble group two.

These legacy factors are multiple and complex. They are hardly deterministic. Rather, they are simply factors that have made transition easier or more difficult. How long their influence might be felt is also unclear. Favored states need not stay favored forever.[8] Non-favored states could beat the odds against them and overcome

[8] Hungary may prove to be a case in point. Ekiert was writing about legacies in the late 1990s.

the obstacles to a successful transition. But, if history matters, we should expect the ones with fewer path-dependent obstacles and resistance to prevail – assuming any transitions are made in full.

Where does that leave us? Some things seem more clear. We are not seeking to explain how autocratic effectiveness is lost to early democratization struggles. New democracies may experience problems with bureaucratic effectiveness and corruption, but in Eastern Europe, it is because of the nature of the earlier autocracies and not so much their loss. Political competition was unlikely to bloom without thorns once the old communist ways were abandoned or at least partially abandoned. New democracies in Eastern Europe, as elsewhere, had some likely proneness towards clientelism, with implications for bureaucratic ineffectiveness and corruption. Yet it is conceivable that some places were variably and better situated to take advantage of the new political-economic opportunities.

What remains entirely unclear is whether democratization systematically influences better governance. Much of the emphasis has hitherto been placed on contrasting new and old democracies and, in particular, levels of democracy. There is little question that new and old democracies are different. The question is what processes bridge the gap between old and new. Just because there is a great contrast between the two types of democracy, it does not necessarily mean that more democratization will make new democracies behave like old democracies. It could well be that it is other factors such as Ekiert's legacies or economic development that are most important.[9] While there are problems with measurement and perhaps the number of years in play so far, it should be possible to sort out the relative contributions of democratization changes, legacies, and economic development(s), a task we turn to in the next section of this paper.[10] It also provides an opportunity to expand the meaning of state capacity beyond the typical emphasis on bureaucracies and corruption.

Accounting empirically for improvements in Eastern Europe governance

Our main query relates to the relationship between democracy and state capacity. If we start with the premise that new democracies tend to possess limited amounts of state capacity and old democracies tend to be characterized by relatively large amounts of state capacity, is it the aging of democracy that bridges the charac-

[9] Wagner's Law – that governments expand in size and function in time with economic development – is a well documented phenomenon that was put forward more than a century earlier.

[10] One acknowledged restriction on our ability to model these processes is that old democracies have been evolving for many decades. East European political systems have had less than

teristics of new and old? Does democracy enhance state capacity? The question (and perhaps the answer) may seem obvious, but there are good reasons to be skeptical if only because so much differentiates new and old democracies than the age of their regime type. The older democracies by definition have been around longer, tend to be more affluent, tend to be located in "nicer," less conflict-prone regions, and have survived major wars that certainly contributed to their state capacity.[11] In contrast, however, we have arguments that political systems that allow for a competitive circulation of elites should lead ultimately to enhanced state capacity. Meaningful elections give politicians strong incentives to improve the ability of the state to do its job. Ultimately, then, democratization should lead to better state capacity. We ask whether or to what extent this might appear to be the case in Eastern Europe? To answer this question, we pose several hypotheses encountered in our earlier discussion of some of the pertinent arguments:

1. Higher levels of democracy encourage the improvement of state capacity.
2. The relationship between democracy and state capacity is curvilinear.
3. Changes in democratization encourage the improvement of state capacity.
4. Legacies enhance the positive relationship between democratization and state capacity.

The literatures that focus on these questions usually restrict themselves primarily to corruption levels and, to a lesser extent, bureaucratic quality. But state capacity takes on a variety of meanings in political science. We subscribe to the definition advanced by Holsti [1996] that state strength is mainly about resource extraction, legitimacy, and monopolizing violence. Capturing the extraction nature of state capacity is not difficult but we have been hard pressed to find systematic linkages between the usual indicators and relevant behavior.[12] Legitimacy is easier to capture if one assumes that citizens exchange loyalty and authority for strong state performances (among others, [Rothstein, 2009]).

For our purposes we analyze the effect of democracy and democratization on four dependent variables. The first two, governmental effectiveness and absence of

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three decades to evolve as "new democracies." That may not be enough time to assess their likelihood of behaving more like old democracies eventually. But we lack the patience to hold our breaths for half a century more before examining this question.

[11] See [Levy, Thompson, 2011; Rasler, Thompson, 2012] for recent discussions of the major war-state capacity phenomenon.

[12] The problem is that indicators examining revenues are difficult to interpret since some states with high capacity, such as the United States, have relatively low revenue/GDP extractions while a number of states without much state capacity have relatively high tax collections. An alternative, the relative political capacity index seems to share this interpretation problem. We attempted to employ it in this analysis but found little worth reporting at this time. It is conceivable, however, that bureaucratic quality is a partial indicator of extraction in the sense that a competent bureaucracy is important to collecting taxes.

violence, are components in the World Bank's [2014] Worldwide Governance Indicators, both from 1996 and following. Governmental Effectiveness measures the "quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility the government's commitment to such policies," ranging in Eastern Europe from −1.26 for low effectiveness (Bosnia 1996) to a high of 1.19 (Slovenia 2008). Second, the World Bank includes a measure of Political Stability and Avoidance of Violence, measuring "the likelihood of political instability and/or politically-motivated violence." In Eastern Europe, the measure ranged from −2.19 for states with greater political violence (Serbia 1998) to 1.21 for those with less (Slovenia 2002).

Our other two variables are taken from Political Risk Services' International Country Risk Guide, coded by country experts based on relevant statistical data, and begin in 1984. In particular, the data have the advantage of dating prior to 1989, helping us to examine the movement from autocracy to varying levels of democracy in Eastern Europe. First, bureaucratic quality measures the strength of the bureaucracy and its autonomy from political pressure on a four point scale. Second, corruption measures the extent side payments for government action and a reliance on patronage is avoided. Higher values correspond with a greater avoidance of corruption on a 6 point scale. Holsti's violence monopoly component can also be tapped by the World Bank political instability measure, again restricted to the post-1996 era.

It is possible to combine these measures into composite indexes of state capacity but our preference is to treat them separately since they offer different kinds of information. At the same time, they are highly correlated (see Table 1) – as we would expect if they tap different dimensions of state capacity. But with the exception of bureaucratic quality and government effectiveness indicators ($r = 0.888$), they are not so highly correlated that we should view them as identical in interpretation. No other dependent variable pairing accounts for more than 50 percent of the respective variance.

Table 1. Correlations between the four state capacity indicators

	1	2	3
1. Bureaucratic quality	–		
2. Avoidance of corruption	0.629	–	
3. Government effectiveness	0.888	0.720	–
4. Avoidance of political violence	0.744	0.680	0.754

Hypotheses 1 and 3 require a measure of democracy. We rely on the most commonly used indicator – the 21 point scale generated from Polity IV data [Gurr

et al., 2014]. While we recognize its limitations, a suitable alternative with extensive geographical and chronological scope has yet to be created. The squared measure of this indicator is employed to assess the claim pertaining to the nonlinear relationship between democracy and state capacity. Hypothesis 2 requires a change score version of democracy so we calculate this indicator from the same 21 point scaled data assessing the autocracy-democracy continuum. Since the Polity data range from –10 for complete autocracy to +10 for complete democracy, we also employ a control for the attainment of higher levels of democracy (the number of years a political system is scored 7 or higher). The idea is that movement toward a high level of democracy may not have the same effect as movement or attainment of high levels. For hypothesis 4's emphasis on favorable legacy, we simply differentiate between Hungary, Poland, the Czech Republic, and Slovenia, as argued in Ekiert (n.d.). One could read Ekiert's argument to also encompass the three Baltic states but their location may work to counteract some of the favorable legacies. Hence, we adopt a conservative interpretation of the legacy argument. Finally, the most obvious rival hypothesis to democratization's beneficial effects is that it is economic growth and complexity that is most responsible for improvements in state capacity. Accordingly, we insert controls from the World Bank for economic development (GDP per capita in thousands of constant 2011 PPP) and economic growth (annual change in GDP measured in Billions). The democratization and economic growth variables are each lagged one year to better assess their causal impact. Table 2 reports the correlations between the multiple independent variables.

Table 2. Correlations between the independent variables

	1	2	3	4	5	6	7	8
1. Democratization	–							
2. Polity	0.122	–						
3. Polity squared	–0.013	0.630	–					
4. Legacy	–0.030	0.315	0.501	–				
5. Legacy democratization	0.184	0.032	0.047	0.012	–			
6. GDP per capita	–0.039	0.303	0.492	0.518	–0.063	–		
7. Lagged change in GDP	–0.096	0.049	0.084	0.095	–0.043	0.158	–	
8. Years as democracy	–0.172	0.550	0.706	0.399	–0.071	0.588	0.045	–

Variable description

Dependent variables

Governmental Effectiveness – World Bank Measure of Governmental Effectiveness – a measure of the quality of public services, the civil service, and the degree

of its independence from political pressures, as well as the quality of policy formulation/implementation and the credibility of the government's commitment to such policies (Min: –1.26; Max: 1.19).

Avoidance of Political Violence – World Bank Measure of Political Stability and Political Violence – a measure of the perceptions of the likelihood of political instability and/or politically motivated violence (Min: –2.19; Max: 1.21).

Avoidance of Corruption – International Country Risk Guide (PRS Group) – a measure of the pervasiveness of side payments in exchange for governmental services and the reliance on patronage rather ability for recruitment and promotion within the government (Min: 1; Max: 5).

Bureaucratic Quality – International Country Risk Guide (PRS Group) – a measure of the institutional strength of the bureaucracy and its autonomy from political pressures (Min: 0; Max 4).

Independent variables

Democratization: Lagged Change in Polity IV Democracy-Autocracy composite Polity: Polity IV Democracy-Autocracy Composite ranging from –10 for complete autocracy to +10 for complete democracy.

Legacy: Poland, Hungary, Czech Republic, Slovenia are coded as 1; other states are coded as 0.

Gross Domestic Product per Capita: PPP (constant 2011), World BankLagged Δ GDP: Lagged change in GDP, Billions 2005 dollars, World Bank Years as Democracy: # of years with a democracy value ⩾7.

According to the results displayed in Table 3, higher levels of democracy lead to higher levels of state capacity in two of four cases.[13] Curiously, East European democracy seems to have no systematic impact on corruption levels and is negatively related to political violence. Bureaucratic quality and governmental effectiveness appear to be improved by higher levels of democracy, both as demonstrated in Table 3 and Fig. 3 and 5. These two capacity indicators are also linked to squared versions of the democracy indicator but the figures appear less supportive of such an interpretation. Figure 3 (bureaucratic quality) looks as if there might have been little relationship if not for a handful of observations in the upper right hand corner. Figure 5 (governmental effectiveness), on the other hand, suggests rather strongly a conventional linear effect.

[13] Note that all reported standard errors are Driscoll-Kraay std. errors calculated with the xtscc package in stata [Hoechle, 2007].

Table 3. Effect of democracy on levels of state capacity

	Bureaucratic quality	Avoidance of corruption	Governmental effectiveness	Avoidance of political violence
Polity	0.038* (0.009)	0.010 (0.020)	0.048* (0.011)	–0.023* (0.009)
Polity squared	0.012* (0.001)	0.008 (0.005)	0.005* (0.002)	0.015* (0.001)
GDP per capita	0.048* (0.005)	0.004 (0.021)	0.061* (0.005)	0.043* (0.006)
Lagged change in GDP	–0.009* (0.002)	–0.010* (0.004)	–0.006* (0.003)	–0.009 (0.005)
Constant	1.337* (0.108)	2.034* (0.397)	–1.536* (0.118)	–1.302* (0.087)
r^2	0.580	0.085	0.815	0.604
N	293	293	279	279

*Denotes significance at 0,05 level.

The political violence outcome finds support for both Polity and Polity squared. Its scatterplot (Fig. 6) does seem to suggest a U-shaped distribution. Yet it should be kept in mind that the political violence data (as is the case with the governmental effectiveness data) do not include pre-1989 observations. So, if there is a U-shaped distribution, it does not address the original autocracy to democracy argument very well. Or perhaps it does in the sense that some new democracies were associated with early instability. This outcome would accord with the argument that autocracies can control political violence better than fledgling democracies.

The scatterplot for corruption (Fig. 4) shows instead the non-relationship recorded in Table 3. A number of earlier examinations have found positive linkages for wider samples but often not very strongly positive findings. This finding also cautions us not to make too much what is depicted in Fig. 2 showing the averaged relationship of higher democracy and lower corruption.

Thus, we are not in a position to completely reject the curvilinear interpretation (hypothesis 2) for the relationship between democracy and state capacity. We have our doubts about a J-curve fitting East European data for bureaucratic quality but the political violence avoidance data is much harder to refute. The conservative assessment is to say that some curvilinearity does seem to be present in the transition from autocracy to democracy. The question remains open as to precisely which type of activities it is most applicable.

Fig. 3–6. State capacity-democracy scatterplots

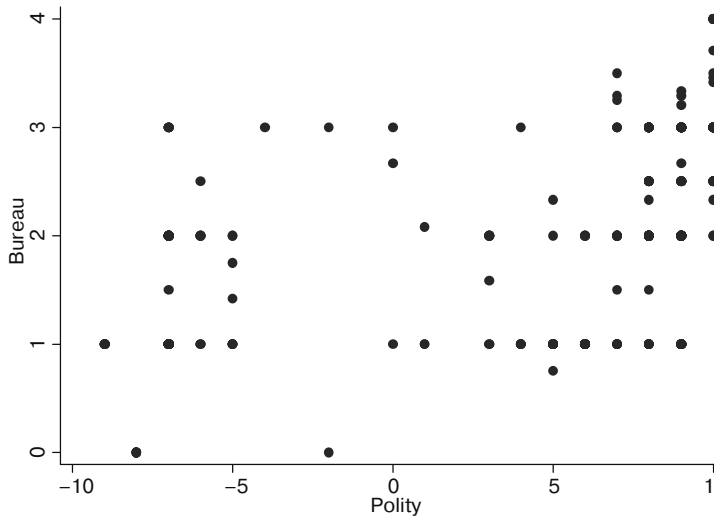

Fig. 3. Bureaucratic quality-democracy

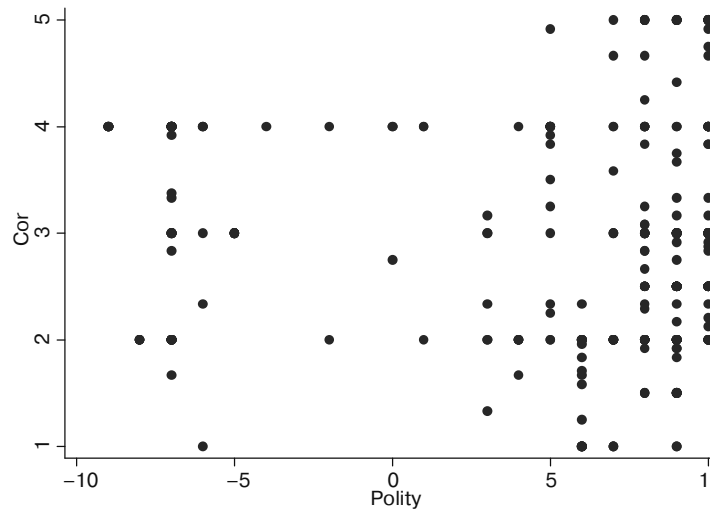

Fig. 4. Corruption avoidance-democracy

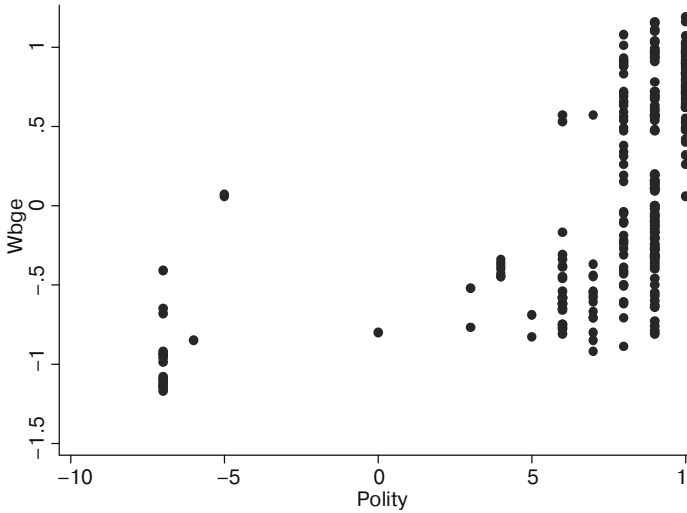

Fig. 5. Governmental effectiveness-democracy

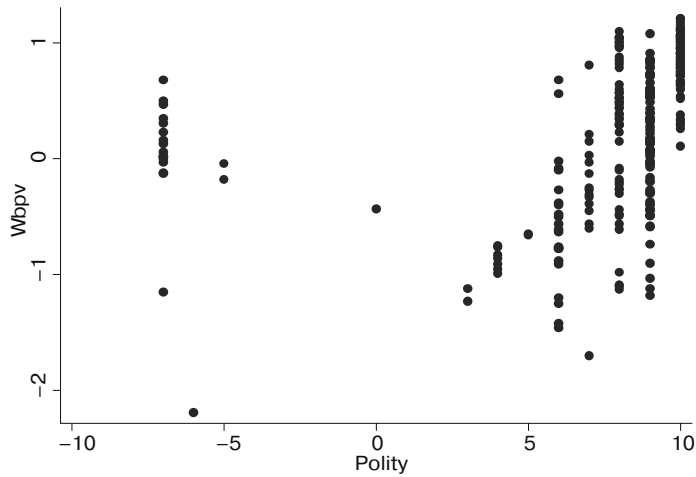

Fig. 6. Political violence avoidance-democracy

Nevertheless, findings predicated on levels of democracy fall short of demonstrating that democracy changes governance, merely that democracies are associated

with higher levels of bureaucratic quality, governmental effectiveness, and avoidance of political instability/violence.[14] The problem may be that older democracies are other things as well. Their societies tend to be quite affluent, they are physically concentrated in Western Europe and North America, and they survived two World Wars with discernible payoffs to expansions of state functions. They tended to be among the earliest industrializers. Many of them are now more strongly committed to welfare services than they are to classical warfare functions. So when we see older democracies scoring relatively low on corruption and high on bureaucratic quality, it is difficult to attribute these policy attributes solely to regime type.

The analysis of democratic levels (hypothesis 1) only reinforces the assumption with which we started that new democracies behave differently than old democracies (and autocracies). To assess the direct impact of democracy, we need to focus on changes in democratic levels and their potential for impact on observed changes in state capacity indicators, as reported in Table 4.

Table 4. Effects of democratization on state capacity

	Bureaucratic quality	Avoidance of corruption	Governmental effectiveness	Avoidance of political violence
Democratization	0,039 (0,020)	–0,030 (0,043)	–0,032 (0,035)	–0,028 (0,029)
Polity	0,077* (0,013)	0,081* (0,029)	0,062* (0,008)	0,000 (0,017)
GDP per capita	0,064* (0,003)	0,038* (0,013)	0,063* (0,004)	0,046 (0,005)
Lagged change in GDP	–0,008 (0,004)	–0,012* (0,005)	–0,008* (0,004)	–0,012 (0,006)
Years as democracy	0,002 (0,006)	–0,056* (0,018)	0,004 (0,003)	0,028 (0,006)
Constant	0,642* (0,1004)	2,070* (0,0287)	1,341 (0,120)	–0,739 (0,060)
R square	0,515	0,148	0,800	0,538
N	290	290	273	273

*Denotes significance at the 0.05 level.

As shown by the coefficients in Table 4, we find little support for hypothesis 3 that democratization stimulates improvement in state capacity. Three of the four

[14] Due to the squared term, however, if one calculates the predicted values on autocracy at either –10 or –9, all else equal, the autocracy has a higher value for avoiding violence than a democracy at 10.

signs are not even positive. All are statistically insignificant. The outcome reported for the two economic controls is slightly different than the ones found in Table 3 but a better case could be made for economic changes impacting some types of state capacity (corruption avoidance and governmental effectiveness in Table 4) even if the signs suggest that economic growth is destabilizing. Yet these findings seem compatible with the finding that years of democracy lead to more corruption, rather than less. Presumably, Table 4 is suggesting in general that improvement or deterioration in state capacity are not an explicit function of changes in democracy even though more democratic states and more developed economies in Eastern Europe tend to have more state capacity than less democratic/developed states.

Our last hypothesis suggests that the linkages between democratization and state capacity might be complicated by a set of favorable/unfavorable circumstances that help or hinder political and economic transitions. The findings reported in Table 5 seem supportive of this notion. Democratization continues to be statistically insignificant across the board but several capacity components indicated positive coefficients for either the legacy dummy (bureaucratic quality, avoidance of cor-

Table 5. Effects of democratization and legacies on levels of state capacity

	Bureaucratic quality	Avoidance of corruption	Governmental effectiveness	Avoidance of political violence
Democratization	0.040 (0.024)	–0.034 (0.029)	–0.040 (0.039)	–.034 (0.028)
Legacy	0.761* (0.097)	1.069* 0.265)	0.123 (0.083)	0.256* (0.079)
Legacy* democratization	0.086* (0.044)	0.245 (0.132)	0.227 (0.141)	0.169 (0.109)
Polity	0.062* (0.011)	0.060* (0.013)	0.061* (0.009)	–0.002 (0.015)
GDP per capita	0.044* (0.044)	0.011 (0.019)	–0.061* (0.005)	0.041* (0.006)
Lagged change in GDP	–0.009* (0.004)	–0.012* (0.005)	–0.008* (0.004)	–0.013* (0.006)
Years as democracy	0.000 (0.004)	–0.059* (0.014)	–0.003 (0.003)	0.025* (0.006)
Constant	0.863* (0.114)	2.380* (0.246)	–1.307* (0.140)	–0.661* (0.048)
R squared	0.623	0.331	0.807	0.557
N	290	290	273	273

*Denotes significance at the 0.05 level.

ruption, and avoidance of political violence) or the interaction effect between democratization and legacy (bureaucratic quality). Only governmental effectiveness, despite the high correlation with bureaucratic quality, appears immune to legacy effects. Thus, the findings reinforce the idea that states with more complex political and economic systems (Polity and GDP per capita) tend to have more state capacity but democratization is not a driver *unless* one starts with favorable circumstances.[15] History matters. It is probably too soon to say for how long it matters.

Conclusion

Focusing on regionally selected samples can be dangerous. It is certainly conceivable that some regions simply lack much variance on some topics. Examining democratization in the Middle East or terrorism in Scandinavia (until fairly recently) might not make a great deal of sense. Eastern Europe, however, was uniformly autocratic up to a certain point in time and then proceeded to experiment with democratization in different ways in different parts of the region. As a region, it also has a record of limitations on state capacity as well as some variance. Some states in Eastern Europe have higher scores than other states do. Our question is whether or to what extent democratization has contributed to improvements in state capacity, therefore, seems perfectly appropriate in the Eastern European context.

We find that, as elsewhere, more democratic and more economically developed states tend to have more state capacity. However, the development of that capacity may be due less to the process of democratization in the East European context (and elsewhere), but instead favorable conditions in legacy states. The evidence, however, does not support the contention that democratization has so far contributed to gains made in state capacity. Perhaps the process takes longer than the 25 some post-communist years for which we have data. This is a problem that we cannot address at the present time. Somebody else will need to look at the data considerably down the road to see whether more empirical support is forthcoming for the democracy-state capacity linkage in Eastern Europe. In the interim, our analysis suggests that we should look elsewhere for the drivers of enhanced state capacity.

Whether this problem is distinctively East European is something that can be pursued at greater length currently. Might we find similar relationships in other parts of the world? Perhaps, but Back and Hadenius [2008] findings on administrative capacity (see footnote 2) suggest that there is more democratization taking place than there are improvements in state capacity. Still, we would gain more cases with

[15] Note that the finding that economic growth is destabilizing is more uniform across all 4 indicators of state capacity in Table 5 than was the case in Table 4.

longer periods of democratization although we might lose some ease in demarcating favorable legacy cases.[16]

More cases might also help us to differentiate among the various attributes of democracies that might lead to strong relationships between democratic levels and state capacity but weak linkages between democratization and capacity changes. At the same time, we need to examine to what extent our findings are due to relatively blunt Polity measures of democracy. If state institutions attain very high levels of democracy fairly quickly, subsequent changes in state capacity are likely to be linked to a democracy score that varies little over time. All of these considerations suggest emphatically that our present findings are highly preliminary. Yet we do not need to be apologetic in finding, however provisionally, that something other than democratization may be driving changes in state capacity.

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[16] Of course, the liability of relying on a "legacy" factor is the responsibility to specify just what legacies are responsible for the observed outcomes. Still, it seems likely that if legacy factors are critical, their nature will probably vary from one region to another.

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