

THE  
**END**  
OF  
**EMPIRE?**

THE  
**TRANSFORMATION**  
OF THE  
**USSR**  
IN  
**COMPARATIVE**  
**PERSPECTIVE**

## 2

# The Rise, Fall, and Future of the Russian Empire

## A Theoretical Interpretation

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The Russian Empire has been at the center of global politics throughout the twentieth century. The expansion of the Russian Empire into eastern Europe served as the primary catalyst for the Cold War. The collapse of the empire, beginning in 1989, rightly signaled the end of the forty-five-year frost. Today, important segments of Russian society yearn for the return of the empire—a development that, were it to occur, would surely impose a deep freeze on now warm East–West relations. Understanding the rise, fall, and future of the Russian Empire is central to the successful management of foreign affairs in the closing days of the “American century.”

The study of imperialism was once at the heart of the discipline of international relations. It is now typically treated as a footnote, of interest primarily to more historically inclined scholars. This is increasingly unfortunate. The collapse of the Soviet Union rendered transparent the imperial nature of the Russian-dominated political system. Yet, we lack today the necessary theoretical tools to understand and explain the empire, its demise, or its future.

In this chapter, I build upon the rich if now forgotten literature on imperialism and pose a general theory of empire, in two parts. First, I summarize a theory of relational contracting in which empire is but one of several possible relationships between polities. Drawing upon economic theories of the firm, empire is understood metaphorically as roughly equivalent to integration within a single firm. Empires are most likely to emerge when scale economies are large, the expected costs of opportunism in an anarchic relationship are high but decline with hierarchy, and governance costs are low or do not escalate significantly with hierarchy. Like many other theories in international relations, the theory of relational con-

tracting focuses on relations between states—not on their domestic attributes. The features of the theory most relevant to the Russian Empire are summarized here; fuller versions of the theory are presented elsewhere.<sup>1</sup>

In the second part of this chapter, focusing on the internal characteristics of polities, I review a theory of the monopoly power of the state. Relaxing the stark assumption of internal unity central to the first approach, the second model suggests that autocracies will tend to possess an imperial bias in their foreign policies. Again, only the relevant features are discussed here; the theory is presented and tested more systematically in an earlier essay.<sup>2</sup> The two theories are intimately related, operate together, and jointly form a general theory of empire. I do not attempt to assess which part is analytically more important in the Russian case; rather, features of both models are at work simultaneously in this and, I suspect, other instances as well.

One of the great anomalies of the Russian Empire was its peaceful demise. Many analysts, even those sensitive to the internal decay of the Communist regime, predicted that the empire would fall with a bang, not a whimper. Nonetheless, the end of the Russian Empire was spearheaded and accepted—even if not fully anticipated or supported—by the Soviet elite. The theories presented here identify processes of endogenous change that ultimately produce the collapse of empire. Under conditions obtaining in the Soviet Union by the 1980s, they imply that shrinking the empire would improve welfare and would, therefore, be acceptable to the political leadership. This is, perhaps, one of the biggest differences between traditional theories of imperialism and the general theory examined here.

This chapter is a theoretical reflection on the nature, causes, and duration of empires. It is decidedly not an empirical study of empires in general, or of the Russian Empire in particular. The theory is applied to the Russian case, but only at the level of broad interpretation. Specialists will no doubt find the approach unsatisfying, but I believe there is value in seeing the rise, decline, and possible future of the Russian Empire through a new and, I hope, more powerful set of lenses. The chapter is divided into five principal parts. I first briefly review existing theories of empire. The second section defines *empire* and places it along a continuum of other possible relationships between polities. I present, in the third section, a theory of relational contracting and, in the fourth section, a theory of the monopoly state. The final section examines implications of the combined theory for the future and policy.

### Theories of Empire

Three main theories divide the study of empire.<sup>3</sup> Metrocentric theories focus on dispositional features of imperial states and identify a range of internal characteristics associated with expansion. Vladimir I. Lenin's theory of imperialism is a classic example: faced with a falling rate of profit at home, capitalist states are

driven to build empires as they search for new outlets for their accumulating surpluses.<sup>4</sup> Explanations of Russian imperialism that emphasize either cultural traits or the expansionist nature of communist ideology are metrocentric theories.

Pericentric theories emphasize conditions in the colonial states and territories. In this view, states are drawn into empires by events and conditions in the outlying areas. John Gallagher and Ronald Robinson articulate this approach most clearly in their thesis, "The Imperialism of Free Trade."<sup>5</sup> Great Britain, they argue, pursued the same goals around the world; what differed was the ability or willingness of peripheral elites and governments to serve British interests. Although it preferred an informal empire based on policies of free trade, Britain opted for more formal control in areas where local rulers were too weak to ensure an open economy or other imperial competitors threatened to close the area to trade. Pericentric theories of Russian imperialism include those that highlight the varying conditions in the Eastern European states after World War II or focus on the nature and strength of the new governments in the several successor states.

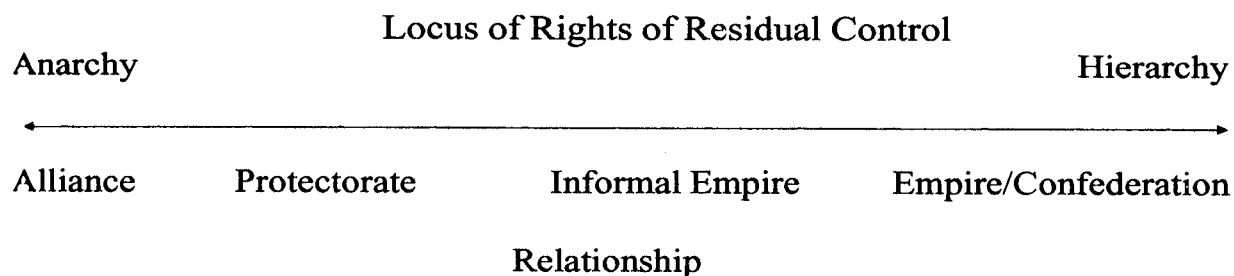
Finally, systemic theories of empire highlight the struggle between great powers for influence around the globe. Realist theories, for instance, predict that security or power-maximizing states will build empires to counterbalance the capabilities of potentially hostile competitors.<sup>6</sup> In the Russian case, systemic theories focus on the state's continuing fear of Germany after World War II and its need to build a Soviet buffer in Eastern Europe, or on Russia's current need to reestablish control over the successor states to remain a great power in world affairs.

There is sufficient evidence in the historical record to sustain each of these theories as a viable explanation of imperialism. Any instance of empire is likely to combine elements drawn from all three approaches. Several recent studies have succeeded in integrating these frameworks into a consistent and powerful whole.<sup>7</sup> Nonetheless, these synthetic theories, while sensitive to variations in informal and formal empires, continue to abridge the full range of variation in relations between polities; this both limits the explanatory utility of the theories and creates a selection bias in their research designs. Perhaps more important for our purposes here, these theories are static and cannot explain imperial change. The theory discussed below seeks to rectify both of these limitations: the first part is explicitly relational, and thus combines elements from metrocentric, pericentric, and systemic theories; the second part is strictly metrocentric.

### **Empire as a Political Relationship**

Originally used as an invective against Napoleon's expansionist policies in Europe, imperialism has been defined in a variety of ways.<sup>8</sup> Classical realists follow the original usage; for Hans Morgenthau, any state that does not accept the territorial status quo is ipso facto imperialist.<sup>9</sup> For others, empire is associated

Figure 2.1. A Continuum of Political Relations



with the direct or indirect economic domination of peripheral areas; in an extreme and somewhat perverted sense, it has also been used to refer to any economic exchange between states of unequal wealth.<sup>10</sup> Analysts have also identified various types of empires, with the most common distinction being between informal and formal systems of rule. Despite their differences, all of these various usages share a common view of empire as the control of one polity by a second.<sup>11</sup> In a less than helpful way, the debate over what is and is not an empire has typically fractured over the instruments of control, not the condition or degree of control itself.

Defined as a relationship in which one polity is controlled by another, empire can be more fully understood as an endpoint along a continuum defined by the degree of hierarchy between two polities.<sup>12</sup> This continuum is illustrated in Figure 2.1. A *polity* is an organized political community that has experienced or could potentially experience self-rule. Despite rather severe problems of operationalization, as discussed by Bruce Parrott, any attempt to analyze existing empires must at least envision a past or an alternative future in which the constituent parts were or could become independent entities.<sup>13</sup> Polities, as defined here, differ from acephalous political communities, which lack any central organization, and from other political communities that are below the minimum efficient scale to survive as independent entities. It follows from this definition that the basic unit of analysis may change with variations in internal political organization or minimum efficient size. Throughout this chapter, Russia is taken to be the basic polity both within the formal empire, embodied in the Soviet Union, and in the informal empire, which linked the Soviet Union with the nominally sovereign states of Eastern Europe. It is for this reason that I use the term “Russian” Empire rather than the more common “Soviet” empire.<sup>14</sup>

The degree of relational hierarchy, in turn, is defined by the locus of rights of residual control. All relationships between two parties, whether entered into voluntarily or as a result of coercion, can be considered to be based upon some *contract* that specifies explicitly or implicitly the terms under which they will pool their efforts and resources—broadly referred to here as cooperation—and the residual rights of control retained by each.<sup>15</sup> Cooperation by itself does not

establish control. When two states agree to some joint activity, they do not necessarily establish control over one another. Rather, control occurs when one side imposes constraints on the other's residual decision-making rights.

Contracts are, simply, agreements that define the terms of the relationship between two actors. Contracts can be completely or incompletely specified. The former type details numerous contingencies and sets forth appropriate responses by the parties; the latter contains blanks that are filled in by the parties as necessary. With costly information, bounded rationality, or any other constraint on perfect foresight, no contract can address all contingencies in all possible states of the world. In practice, then, all contracts are imperfectly specified and thus leave a varying residual of unspecified rights, obligations, and actions. The *rights of control* fall to the party with the ability to make decisions in this residual. It is important to note that the term *right* does not necessarily imply a formal, de jure recognition by both parties of one's authority to exercise control over the residual; the term can simply reflect an informal, de facto ability of one party to control actions of the other in some areas. Rights of control differ from mere influence, however, in that they constitute an enduring pattern of control within an ongoing relationship.

In anarchy, which defines one end of the continuum of political relationships, each party possesses full residual rights of control; while constrained by its environment, each state is master of its own fate in that area of rights not previously ceded in the contract. Anarchic relations, of course, characterize the majority of international relations; some scholars even understand anarchy to be the defining characteristic of international politics.<sup>16</sup> An alliance, such as the North Atlantic Treaty Organization, or a free trade agreement, like the General Agreement on Tariffs and Trade, are well-known examples of contracts between states in anarchy.

In hierarchy, at the other end of the continuum, one party—the dominant member—possesses the right to make residual decisions, while the other party—the subordinate member—lacks this right. Thus, the dominant state possesses control over all resources and assets not specifically reserved to the subordinate actor in the contract. It is irrelevant to the definition of hierarchy whether the relationship is entered into voluntarily or through the pain of battle and whether control rests on military force or economic dependence. How control is exercised is separate from the condition of control, and it is the latter that defines relational hierarchy. At least two forms of hierarchy exist. In empire, one partner cedes substantial rights of residual control directly to the other; in this way, the two polities are melded together in a political relationship in which one partner controls the other. The European empires of the nineteenth century remain classic examples. In a second form of hierarchy, confederation, the constituent members themselves remain equal but cede substantial residual rights to a third party or federal state.

This definition of empire as a hierarchical transfer of the rights of residual

control does not differ in its fundamentals from others posed in this volume. Miles Kahler, in chapter 12, also distinguishes between confederations, which operate with joint decision making, and empires, in which one society assumes sole decision-making authority over the internal and external policies of another—or, to use my terms, where one party possesses all rights of residual control.<sup>17</sup> Bruce Parrott defines empire as a dominant society's control of the effective sovereignty of two or more subordinate societies—with effective sovereignty analytically congruent with complete rights of residual control.<sup>18</sup> While similar in form and content to both Kahler's and Parrott's definitions, a focus on the degree of hierarchy and on the locus of the rights of residual control reveals more clearly, I believe, the continuous nature of relationships between polities.

At least two types of intermediate relationships between alliance and empire have been salient historically.<sup>19</sup> In a protectorate, one state cedes control to another over important areas of national policy, most notably foreign affairs. Although the terms vary, such grants of control are typically broad, are made for extended periods of time, and are irrevocable. Such delegations of authority transfer residual rights of control in the designated areas from the protected state to the protector and severely constrain the former's ability to influence the policy choices the latter makes for it. Britain extended a *de jure* protectorate over the so-called native states of India and a *de facto* protectorate over what is now the United Arab Emirates during the nineteenth and early twentieth centuries. Through the organization of Commonwealth of Independent States (CIS), Russia is attempting to impose a protectorate, at least, over the other successor states.<sup>20</sup>

Informal empire is the second salient intermediate form. Informal empire differs from its more formal counterpart only in the breadth of the residual rights of control transferred from the subordinate to the dominant state. In formal empire, the imperial state's control of residual rights in the subordinate partner is nearly total, whereas in informal empire, the control is substantial but less than complete. This definition differs from tradition, in which the distinction between formal and informal empire rests on the mechanism rather than on the degree of control, with informal empire defined as indirect rule by local proxy.<sup>21</sup> Although the process of control is important and easily conflated with outcome, the key distinguishing factor is the extent of the residual rights that remain in the domain of the subordinate member. The most striking modern example of an informal empire was the Soviet bloc that was established in Eastern Europe following World War II.<sup>22</sup>

“Pure” conditions of anarchy or hierarchy seldom exist. Even in primarily consultative relations between allies, some degree of control may be exercised over residual choices. Similarly, in empire, local officials are often given some independence in responding to local conditions. Thus, conceived in this way, we can begin identifying degrees of hierarchy along the continuum of relations. As examples, we can note that Russia's post-World War II relations with the states of Eastern Europe were less hierarchic than its current relations with the constit-

uent republics of the former Soviet Union. Among the successor states today, some (the Baltics) have opted for noncooperation; some are emerging as protectorates, a relationship in which Russia continues to control their foreign policies; and others—the CIS notwithstanding—are being reintegrated into an informal Russian empire.<sup>23</sup>

### **Relational Contracting**

Theories of relational contracting, first developed in economics, were originally designed to explain the institution of the firm. However, they also provide a general approach to understanding social organization.<sup>24</sup> The key insights of the relational contracting approach are, first, that the transaction is the unit of analysis, and, second, that transactions can be carried out in a variety of governance structures—or what I have called relations in the previous section. Stated another way, the approach views the structures in which particular transactions occur as variable and endogenous. The central hypothesis is that parties choose relations in order to economize on resources, or in other words, to maximize benefits from exchange and minimize transactions costs. In short, actors choose the relationship that is most efficient for conducting the transaction so as to maximize the resources that can be used for other valued purposes.

In international politics, three variables are critical to the decision of whether to cooperate with another party, and, if so, what kind of relationship to form. The three variables to consider are scale economies, expected costs of opportunism, and governance costs. Scale economies determine the gains from cooperation. The expected costs of opportunism reflect the risk of cooperating with the partner. These costs decrease as hierarchy increases, thus creating the principal impetus toward empire. Governance costs are incurred in safeguarding the relationship and, if necessary, coercing the other party; governance costs increase with hierarchy and deter states from empire. Together these three variables determine the choice of relationship. Small scale economies, which might otherwise thwart cooperation, may still produce a relationship between the parties if the expected costs of opportunism and governance costs are even smaller. High expected costs of opportunism, which again might undermine cooperation, may still permit a relationship if governance costs are sufficiently low—although in this case the relationship will be relatively hierarchic. The logic behind these inferences is developed in the following sections.

### ***Scale Economies***

The gains from cooperation are the great forgotten variable in current theories of international relations. In many theories, the gains from cooperation are either assumed to exist or are treated as fixed, as when it is assumed that prisoner's dilemma is the characteristic game of international politics or that games are



typically repeated.<sup>25</sup> But total gains from cooperation cannot be fixed or assumed; rather, they vary as a function of scale economies. The larger the scale economies, the greater the gains from cooperation, whether the focus of cooperation is a material good for trade, security, or another joint activity that requires input of scarce resources from one or both parties.<sup>26</sup>

Scale economies are defined by the relationship between changes in production inputs and outputs. Returns to scale remain constant when increases in the quantity of factors employed in production lead to an equal and proportionate increase in the quantity of output. Under decreasing returns to scale, increased inputs produce less than proportionate increases in output, and under increasing returns, increased inputs lead to more than proportionate increases in output. Scale economies arise in three ways: through a division of labor, through use of or changes in technology, or when positive externalities are internalized in a relationship.

Through specialization and exchange, parties can reap the gains from a division of labor. The law of comparative advantage is based precisely on this insight. Yet, other activities that are not commonly understood to involve tradable goods can produce the same sorts of benefits. In the realm of security, for instance, states may specialize in certain activities and exchange their output: If one state builds a deepwater navy and protects sea lanes, while another builds a land army and concentrates on territorial defense, both countries may increase security while expending fewer total resources. A division of labor may also be utilized in different types of political relationships; specialization and exchange can occur between two states in an anarchic relationship or between an imperial state and its colony. The difference between the two situations lies not in the transaction itself but in the political arrangement that governs the transaction.

Security is also a “natural” monopoly that, due to the technology of production, often possesses increasing scale economies over some substantial geographic area.<sup>27</sup> Technological changes that apply more energy to the productive process, facilitate standardization, or break complex tasks into simpler and repetitive parts are also likely to produce greater scale economies, as will any production method that requires a large, fixed, initial investment. Increasing technical proficiency with output—or learning by doing—is equally important. In the economic arena, such technological innovations are the driving force behind the growth of ever-larger firms and, in the views of some, regional trade arrangements and economic unions.<sup>28</sup> In the security realm, technological innovations that lower the cost of projecting force, create advantages for the offense, or favor forward-based defenses will increase scale economies and enlarge the optimal area over which to produce defense.<sup>29</sup> The advent of steam-power technology provides one example: in addition to reducing the costs of maintaining a global navy, the use of steam power also required an extensive network of overseas coaling stations, some of which were integrated into the European empires while others remained independent.

Positive externalities are benefits from an activity that extend beyond the

party producing the good. They are pervasive in the environmental and security arenas, but are less common in traditional economic exchange.<sup>30</sup> For example, the security produced by a state may benefit others within the international system as well. If a state blocks another's drive for hegemony, it benefits other states within the system. Likewise, if a front-line state deters expansion by another, it protects those states that lie to its rear. By internalizing their separate defense efforts within a single cooperative relationship, both parties can potentially improve their individual welfare by reducing redundant production.

A division of labor, technological change, and positive externalities can all increase scale economies and heighten incentives for parties to cooperate. Stated more strongly, a division of labor, improved technologies, or positive externalities are necessary conditions for cooperation. For a cooperative venture to succeed, there must be some advantage to at least one party from pooling resources and efforts with the other that cannot be obtained unilaterally; otherwise, states are better off relying upon their own resources. As scale economies increase, so does the probability of cooperation—when all other factors are held constant. Yet, because scale economies are potentially the same across alternative political relationships, these efficiency gains cannot explain the choice between, say, an alliance and an empire. This remains a function of the expected costs of opportunism and of governance costs, discussed in the next two sections.

Lacking “natural” geographic borders, Russia has long been favored by the substantial scale economies of its natural monopoly in security. By expanding eastward and westward, it greatly increased the area from which it could extract resources without enlarging substantially the borders it was required to defend. The technological advances inspired by World War II also placed a premium on offensive military operations from forward bases—creating a new impetus for expansion, especially into Eastern Europe. In what was often described as a buffer strategy, the object of expansion was to project force and fight future wars as far as possible from Russia's national territory; an identical military strategy, reflecting the same increased scale economies, informed American defense planning after World War II.<sup>31</sup> These same technological scale economies continue to exist today.

In the economic arena, the internal division of labor made possible by the empire was an important impetus for expansion. Unable to compete effectively on world markets due to the inefficiencies of the command economy, and fearful of political manipulations of trade by the West, the Soviet Union relied upon a division of labor within the empire, with different regions specializing in different goods (on the more limited division of labor between Russia and the informal empire, see next section). With the end of Communist rule, the stifling effects of the command economy have been reduced and Russia is going through a severe crisis of economic adaptation. If economic reform is eventually successful, and Russia specializes in its areas of international comparative advantage, this drive for an imperial division of labor will be diminished (see below).

### *Expected Costs of Opportunism*

When involved in a cooperative relationship, states risk three kinds of opportunistic behavior by their partners. As Glenn Snyder has posited, they may be *abandoned*; more generally, partners may shirk responsibility by formally or informally abrogating agreements. States may be *entrapped* by their partners into undesired conflicts, wars, or other activities.<sup>32</sup> As such, entrapment is often a problem of moral hazard in which commitments, once issued, cause the partner to act in a more risky, negligent, or aggressive fashion than before. Finally, states may be *exploited*—a closely related form of opportunism that Snyder does not address. Having settled upon an initial division of the benefits and costs of the relationship, partners can subsequently seek to alter the terms of agreements and obtain more favorable distributions of the joint gains.

When it occurs, in whatever form, opportunism is costly for the state. Its partner either contributes less to the joint enterprise than promised, forces the state to divert its own resources toward undesired ends, or seizes a greater share of the joint gain than anticipated. Abandonment, for instance, reduces not only the partner's contribution but also, in some cases, the efficacy of the state's own efforts; if the state has specialized in a land-based army and its partner has agreed to provide the complementary naval defense, the latter's abandonment may leave the former more vulnerable than if it had produced both an army and navy of its own.

The cost to the state of such behavior is determined by its own opportunity cost. When it possesses alternatives that it values almost as much as the one in question, a state's opportunity cost is relatively low; it can shift from relationship to relationship easily and without a significant loss in welfare. When there are no attractive alternatives, the state's opportunity cost is high and changing relations is a more consequential decision with more deleterious welfare implications. The greater the state's opportunity cost, the greater is the harm—or actual cost—the partner can inflict upon it.

Opportunity costs are determined by the degree to which assets are relationally specific; that is, whether they possess more value in one use and relationship than in others.<sup>33</sup> Assets can be highly flexible and easily transferred from one application to another or highly specialized and difficult to redirect. The more relationally specific the asset, the greater are the opportunity costs incurred by the state.

The probability that the partner will act opportunistically, in turn, is a function of the governance structure the actors choose to construct. The ability of any polity to act opportunistically is determined by its rights of residual control; the greater the residual rights, the greater the discretion of the actor to behave in ways that may—intentionally or unintentionally—undermine cooperation.

Thus, by implication, the probability that the partner will engage in opportunistic behavior decreases with relational hierarchy. In an alliance, for instance,

each partner retains complete residual rights and, thus, wide discretion. Even though it may agree to declare war if a third state attacks the first, the partner nonetheless retains the right to decide who attacked whom and how many resources it will actually commit to the conflict. Therefore, in anarchic relations, *ceteris paribus*, the probability of a partner behaving opportunistically is comparatively high. In an empire, at the other extreme, states merge their formerly autonomous decision-making processes and transfer rights of residual control to the dominant member. The dominant state now decides—to continue with the same example—who is the victim of any attack (presumably itself), who is the aggressor, and how many resources its partner must mobilize.

The expected cost of opportunism is a function of its actual cost, which is constant across the range of alternative relations, and its probability, which declines with relational hierarchy. Thus, the expected costs of opportunism decrease as relations between the parties become more hierarchic. All other things considered, states should prefer to bind their partners through greater hierarchy. The fewer the residual rights of control retained by the partner, the lower the potential for opportunism and, in turn, the expected costs. More than any other relational factor, it is the desire to reduce the potential for opportunism by their partners that drives states toward empire.

The underlying potential for opportunism by Russia's partners has always been relatively high.<sup>34</sup> As a great power, Russia has long been a regional threat and it has a demonstrated record of aggrandizement against its neighbors—many of whom were drawn into the empire during and after World War II. Indeed, before the war many in eastern Europe perceived Germany as the lesser of two evils, and sought to use the Reich as a counterweight to an even more distasteful Russian imperialism.<sup>35</sup> Russia's regional dominance only increased with the defeat of Germany. Rather than emerging as a good neighbor, the Soviet Union exited the war as a revisionist regional power against whom neighboring states would normally balance rather than bandwagon. Similarly, eastern Europe, and particularly the northern tier states of Czechoslovakia, eastern Germany, Hungary, and Poland, had been integrated into the prewar European market economy. Economically, as well as politically and socially, these states were part of Europe, and the economic turn toward Russia was, to put it simply, unnatural. The attraction of the West, moreover, was reinforced by America's postwar economic vitality. Czechoslovakia's and Poland's initial interest in participating in the Marshall Plan provided continuing evidence to the Soviet Union of the pull of the Western economic and political systems. On both security and economic grounds, Russia was justifiably concerned that its regional partners would abandon it at the first opportunity—as indeed they did between 1989 and 1991.

This high potential for opportunism by Russia's partners had two effects. First, it meant that cooperation could take place only within a relatively hierarchical relationship, in order to reduce the potential for opportunistic action by the peripheral areas against Russian interests. This was a critical determinant of

Russia's imperial strategy.<sup>36</sup> Second, in the informal empire, where the probability of opportunism remained higher than within the boundaries of Soviet Union, Russia chose not to develop an extensive division of labor—and, in turn, not to accumulate substantial relationally specific assets—in order to reduce the actual costs of opportunism should it occur. While Russia periodically pushed for a greater division of labor in its relations with the eastern Europeans, this was never a sufficiently high priority to break the political logjam either within the Soviet Union itself or in its relations with its partners.<sup>37</sup> In short, Russia forsook some of the gains from cooperation in order to limit the possible costs of opportunism by its subordinate partners. The high risk of opportunism, therefore, reduced the potential gains from empire and ultimately contributed to its demise. This reflects one of the most striking contradictions of empires: Hierarchy emerges in response to a partner's potential opportunism, but the high likelihood that a state's partners are unreliable restricts the division of labor and, thereby, the benefits from empire.

### *Governance Costs*

States incur governance costs in creating and maintaining relations. These costs take two analytically distinct forms: compensation for distorted incentives and coercion.<sup>38</sup> Whereas opportunism declines with the degree of relational hierarchy, governance costs increase with relational hierarchy. As a result, governance costs deter states from pursuing more hierarchic relations.

The loss of residual control distorts incentives to use resources efficiently in the subordinate party. When parties to an agreement retain full rights of residual control—as in anarchy—they are motivated to cooperate in the most efficient manner possible so as to save resources for other valued purposes. Just as individuals are best motivated when they are claimants on the profits of a firm, so are states best motivated by the freedom to use their resources in any way they choose. As the subordinate party's residual control shrinks, its incentives change; the resources saved by efficient cooperation are themselves subject to increasing control by the dominant state and, thus, less valuable to the subordinate. As the subordinate party's residual control recedes, incentives in other areas of economic and political life are distorted as well. By definition, as residual rights decline, the dominant state is exercising control over a greater range of behavior and, by implication, directing resources to uses the subordinate party would not choose on its own. As the residual rights of control shift from one party to the other, distortions to the subordinate member's incentives multiply.<sup>39</sup> In the case of the Russian Empire, at least under the Soviet Union, many of these distortions were integral to and followed from the command economy imposed by Moscow on the formal and informal satellites.

In a purely voluntary relationship, distortions in its partner create for the dominant state both additional costs of monitoring and control and, somewhat

paradoxically, the need for greater side payments to the subordinate member. The effect of these distorted incentives can be partially corrected by additional contractual provisions that mandate certain actions by the subordinate party. When this contractual solution is adopted, however, the dominant state must employ additional resources to monitor and safeguard the new provisions. As the distortions increase with a higher degree of relational hierarchy, the resources employed by—and, therefore, the costs to—the dominant state must increase as well. Yet, contracting cannot remove distortions entirely. Monitoring and safeguarding additional areas of behavior are subject to diminishing marginal returns. It is also efficient to shift the locus of residual control from one party to the other precisely when it is difficult to specify future contingencies; as a result, it is very costly to safeguard against all possible distortions.

Because of its inherent distortions, increasing hierarchy—*ceteris paribus*—reduces the welfare of the subordinate party. To gain the subordinate party's willing consent to a hierarchic relationship, the welfare losses created by these distortions must be compensated by some transfer or side payment from the dominant state—increasing the costs to the latter. As the subordinate partner's residual control declines, and the distortions increase, so must the compensation package offered by the dominant state. The system of subsidies granted by Russia to the peripheral areas of its formal and informal empire is a prime example of compensation to ensure compliance. As this example confirms, increasing hierarchy raises the costs to the dominant state of governing the subordinate partner.

Distortions in the subordinate member will also accumulate over time, ultimately undermining the basis for the hierarchic relationship. Indeed, in part because of these accumulating distortions, empire becomes an “obsolescing bargain” eventually doomed to failure.<sup>40</sup> Each distortion requires actors within the subordinate party to adjust their own behavior in individually rational but nonetheless socially inefficient ways, thereby producing further distortions in the economy. Over time, the accumulated distortions will become manifest in declining growth rates and economic stagnation (if not absolute decline).<sup>41</sup> At any moment in time, the dominant state will offer a compensation package just sufficient to keep the subordinate party from rebelling or otherwise breaking the relationship. As the distortions increase with time, the compensation package must also increase, raising the net cost of the relationship for the dominant member. In this way, empires and other hierarchic relationships eventually become obsolete; from the dominant state's point of view, a structure of costs and benefits that was attractive early in the relationship becomes ever less appealing as the relationship matures and the distortions and compensating side payments grow—as eventually occurred even in the Russian Empire. All else held constant, any hierarchic relationship will eventually become costly on net to the dominant state. The more hierarchic the relationship, the sooner the break-even point will be reached.<sup>42</sup>

Although it fits awkwardly within the neoclassical economic approach that

informs relational contracting theories, coercion is a fact of life in international relations.<sup>43</sup> The governance costs incurred in correcting and compensating distortions in the subordinate party are rooted in problems of contracting under costly information. Coercion is a substitute for contracting. It can be used by the dominant state to correct distortions by eliciting appropriate behaviors from the subordinate party. Likewise, it can be used to secure compliance with a hierarchical relationship without granting compensation for the resulting distortions. Like contracting, coercion requires the use of scarce resources and, therefore, is costly to countries that use or threaten to use it. This is clearly true for direct military action, but it holds equally for other sanctions such as trade embargoes (which, if effective, reduce the sanctioning country's terms of trade).

As with the other governance costs, the costs of creating and maintaining a relationship through coercion increase with hierarchy. The more hierarchic the imposed relationship, the smaller the subordinate actor's rights of residual control and the greater its resistance both at the outset and throughout the course of the relationship. The greater the resistance, the greater the coercion necessary to support a given relationship.

Greater coercion will also be required over time as distortions increase in the subordinate party. The obsolescing bargain is not alleviated when the relationship rests on coercion rather than on a voluntary contract—indeed, the problem may be magnified, as coercion may prevent the subordinate party from negotiating an end to some of the more pernicious distortions created by the imperial state. Thus, the governance costs of acquiring control over others and maintaining a relationship either by contract or coercion increase as relations move from anarchy to hierarchy. They also increase over time, especially in more hierarchic relations, because of the accumulation of distortions in the subordinate party.

The importance and effects of governance costs are observed in Russia's creation of an informal empire in Eastern Europe after World War II. The costs were relatively low, thereby permitting a hierarchical relationship to emerge. Most importantly, the costs of establishing control over the region were absorbed in the defeat of Germany and, from the perspective of postwar relations, were "sunk." In other words, Russia's new postwar position of dominance in Eastern Europe meant that the past costs of coercion need not figure in the future equation. All Russia needed to consider were the future costs of governing territories it already effectively controlled.<sup>44</sup> The governance costs of maintaining the informal empire were also relatively low, mostly taking the form of low-paid occupation troops. Moreover, these direct governance costs were offset by substantial resource extractions from Eastern Europe. In the period 1946–56, reparations paid to the Soviet Union totaled \$14–\$20 billion. Large implicit trade subsidies added to this amount. By one estimate, the Soviet Union extracted on net \$1 billion per year from Eastern Europe until 1956.<sup>45</sup> Even if it did not produce a profit in the early postwar years, the informal empire clearly did not constitute a significant drain on Soviet coffers.

These governance costs, however, grew incrementally but inexorably over time. Because of the revolts in East Germany in 1953 and Hungary in 1956, which together signaled widespread dissatisfaction with conditions in the region and with Russia's domination, the resource flow from Eastern Europe to the Soviet Union began to dwindle and, eventually, reverse itself. Direct extractions were terminated, and implicit trade subsidies began to flow into rather than out of the region.<sup>46</sup> After the oil shocks of the 1970s, which raised the price of oil everywhere outside the Soviet bloc, the informal empire in Eastern Europe became an ever greater liability to Russia. According to one estimate, Soviet aid to Eastern Europe in all forms amounted to approximately \$134 billion between 1971 and 1980 alone.<sup>47</sup> As late as 1988, the Soviet subsidy to Eastern Europe was estimated—by the Russians themselves—to be \$17 billion per year.<sup>48</sup> As suggested by the obsolescing bargain, the empire eventually turned on itself—prompting a reevaluation of Soviet-East European ties, a loosening of Russian control in the repeal of the Brezhnev Doctrine, and finally the decision not to prevent the disintegration of the informal empire.

### **The Monopoly State**

Like many theories of international relations, the theory of relational contracting presented here assumes that states are unitary actors. In other words, the theory treats the state, defined now as a domestic political actor, as a perfect agent for a society that seeks to maximize aggregate welfare, however substantively determined. The theory then draws inferences about likely national behaviors from the attributes of the actors, the external environment, and changes in that environment. This is a powerful form of theorizing in international relations, but it has obvious limitations. In particular, the state as an international actor is not unitary, and the state as a domestic actor is not a perfect agent for its society. At the very least, the state exploits its relative autonomy or “agency slack” to pursue its own welfare or the welfare of particularistic groups that capture it. Following now common usage, the benefits so obtained by the state can be grouped under the broad heading of *rents* and the behavior employed by the state to acquire these benefits can be referred to as *rent-seeking*. The current section of this chapter discards the assumption that the state is a perfect agent in favor of the assumption that it seeks to maximize its rents. Working within the same microeconomic framework that informs the theory of relational contracting, I examine the implications of agency slack and its relationship to empire.

Theories of rent-seeking are widespread in political science.<sup>49</sup> By lobbying the government, groups can encourage adoption of restrictionist policies that reduce competition for goods and services, increase price, and transfer wealth or rents from consumers to themselves. Tariffs, because of the limitations they place on imports, are a classic restrictionist instrument; state licensing and certification for various professions produce the same result. Lenin's theory of im-



perialism can be recast in these terms, with capitalists earning rents from the monopolization of external markets. Jack Snyder's more recent study points to the same central tendency: seeking to improve their own welfare, groups enter into rent-seeking coalitions that produce tendencies toward expansion and—from the perspective of the larger society—overexpansion.<sup>50</sup>

Often neglected in this literature is the fact that the state itself possesses significant monopoly power and can earn rents for its officials or critical groups upon whom it depends for political support.<sup>51</sup> This shift in focus from social rent-seeking to state rent-seeking, even though the rents may ultimately end up in the hands of politically important social actors, has two analytical advantages. First, societal models are based implicitly on a pluralist view of politics that is most appropriate for the study of democratic polities; a focus on the state facilitates the analysis of a broader range of political regimes. Second, a focus on the state allows for the use of simple models from public finance theory and insights from the literature on the optimal size and shape of nations to deduce specific hypotheses on the links between rent-seeking and empire.

### *The State as Monopolist*

All states specialize in producing public goods. Since consumers would normally free ride, the state's monopoly on the legitimate use of force gives it a comparative advantage in this area; indeed, its comparative advantage is so strong that the state is often the only producer of such goods and enjoys a natural monopoly. The state's monopoly of force, however, also allows it to expand beyond the provision of public goods and to displace private producers from other economic activities. At an extreme, the state can own and regulate the entire economy. By exercising its power as a monopoly producer of goods and services, the state earns rents for itself or for redistribution among politically influential groups upon whom it is dependent for support. By doing so, the state exploits the broad mass of citizens for the gain of its own officials.

Like any other monopolist, the state creates rents by restricting the supply of the good(s) under its control and raising prices above the competitive market level. The difference between the monopoly price and the cost of production is the rent earned by the state.

Like a private monopolist, the state can also use advertisements—called propaganda in politics—to stimulate demand; it may also use its authority to inflate demand indirectly, as when it threatens other states in order to increase society's demand for security. When demand is stimulated, the rents earned by the state increase. States can also obfuscate the true costs of production, thereby rendering public control over their activities more difficult and increasing the rents earned. (Obfuscation of this sort is, in part, a function of the good being produced. Public goods, the production of which depends upon the authoritative ability of the state to tax consumers, typically lack privately produced counterparts against which to

measure government performance. States also tend to specialize in goods (like education) with only long-run and difficult-to-measure links between inputs (teachers' salaries, instructional methods) and outputs (knowledge).<sup>52</sup>

Because of their monopoly powers and patterns of specialization, all states earn some rents, regardless of how easily the states are controlled by their mass publics. As the costs to society of controlling rent-seeking increase, however, a state will extract higher rents and will expand its control over ever greater areas of economic activity—further increasing its rents by monopolizing production in those areas.

The command economy of the Soviet Union was, perhaps, the most extreme case of a centralized state monopoly controlling most forms of economic activity and earning substantial rents. While no direct measures of state rent-seeking are available for any polity (indeed, if the earlier arguments are correct, states will intentionally obfuscate their budgets, making such estimates virtually impossible) the level of rent-seeking by the Soviet state appears to have been quite high. The number of state officials and party members who benefited from these rents was sufficiently large that no single individual amassed the personal fortune of, say, Ferdinand Marcos of the Philippines, the political elites of the Soviet Union did enjoy substantial benefits relative to the average consumer due to their privileged access to a wide range of goods and services in an economy of acute scarcity.<sup>53</sup>

### ***Public Control of State Power***

The state's ability to earn rents is dependent upon the public's ability to control the monopoly power of the state. Just as states can regulate private monopolies "in the public interest," and thereby limit the rents these firms earn, so can publics regulate the monopoly powers of states. Whether and how well publics perform this role is a function of the costs of monitoring the state and enforcing the public will.

In order to control the state, individuals must first monitor its performance and acquire information on the real costs of production. Information problems loom large. Costs can often be assessed only by comparing production in two or more countries. Effective monitoring is itself a public good, subject to the problem of free riding; because no citizen has any incentive to invest in acquiring information, collective investment in monitoring occurs only at suboptimal levels. A state can also raise the costs of monitoring by intentionally obfuscating its budget, limiting access to information about other countries, and so on. The higher the costs to the public of acquiring information on state performance, the greater latitude state officials have to engage in rent-seeking activities.

Once public assessment of state performance and level of rents has occurred, citizens have two instruments through which to control state behavior: *exit* and *voice*.<sup>54</sup> Through exit, individuals move and reduce the state's market for the

goods it is producing. Discipline is imposed upon the state, in other words, by shrinking its consumer base, reducing its rents, and thereby punishing it for undesirable behavior. This is, however, a blunt instrument of public control. Voice—or, more generally, political participation—disciplines the state by separating or threatening to separate state officials from their offices. The citizens stay, but the composition of the state changes, the mere threat of which may induce state officials to limit their rapacious behavior. Voice can take many forms, from voting, to campaign contributions, to mass unrest, to active rebellion. At the aggregate level, the costs of political participation vary by regime type. For instance, in most democracies, where elections are the primary focus of political participation for the majority of citizens, it is relatively costless to exercise voice via the vote. At the other extreme, autocratic states typically suppress political dissent and participation. Voting, if it occurs at all, is ineffective in removing officials from power. In autocracies, to replace or effectively threaten a ruler requires either mass unrest or some form of armed rebellion—activities that carry considerably higher individual costs, including the possibility of death. In these polities, voice is very costly for the average citizen and, as a result, seldom exercised.

On average, the higher the costs of political participation, the greater the state's ability to earn rents will be. Thus democracy, as a more open political system, is a comparatively effective mechanism for controlling the state. More closed, autocratic systems are far less powerful tools to this end. There are always some costs to monitoring and controlling the state. Therefore, all states earn some rents. Nonetheless, the level of rents earned by the state will be lower in democratic and higher in more autocratic polities.

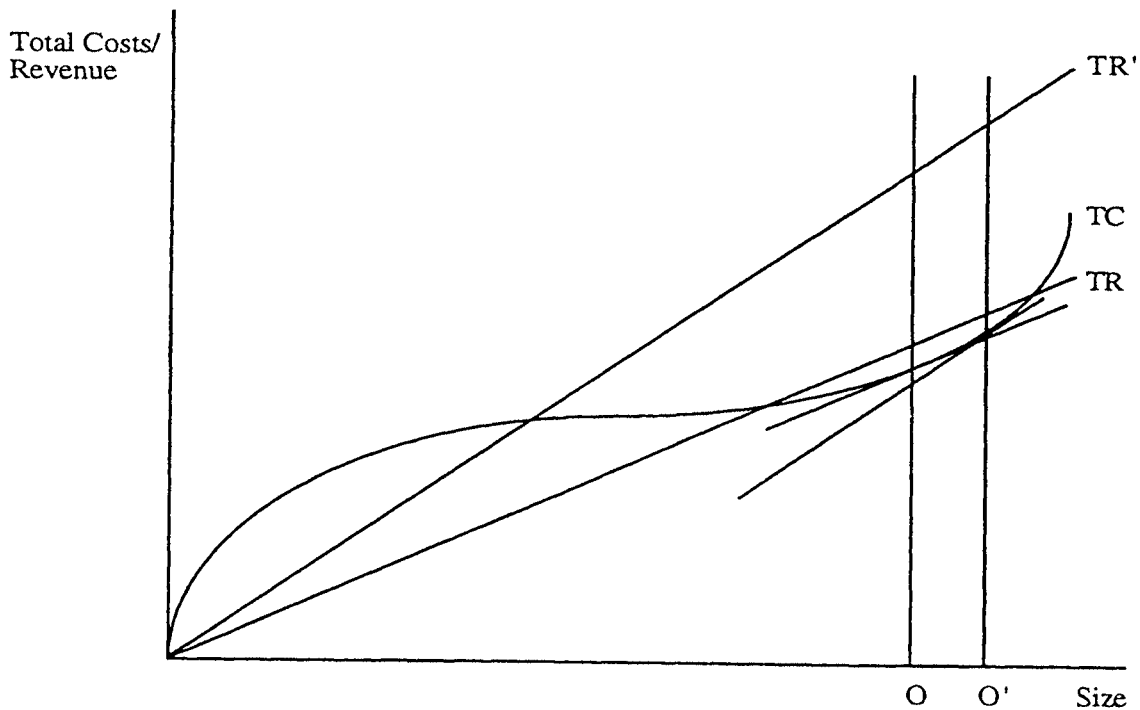
The Soviet Union was, to use the terms developed here, a rent-seeking autocracy. It limited information about its own activities and those of other states abroad—thereby raising the costs of monitoring its monopoly power. It restrained the freedom of its citizens to exit the political system and stifled political participation—further raising the costs of controlling its monopoly power. As a result, the Soviet state—like its tsarist predecessor—enjoyed broad monopoly powers which it appears to have used to produce substantial rents.

### *Rent-Seeking and Empire*

The ability to earn rents creates an imperialist bias in a state's foreign policy. Intuitively, rents make each unit of territory more profitable to the state, giving it an incentive to acquire and rule more area; successful rent-seeking thus creates a larger optimal size for the political unit.<sup>55</sup> It follows from the arguments in the previous section that autocratic states possess a larger optimal size and, in turn, a tendency toward expansion.

For all states, an optimal size exists defined by the costs of collecting revenue and providing goods and services to their citizens, on the one hand, and the

Figure 2.2. The Optimal Size of Political Units



revenues earned by taxes collected as payment for these goods and services, on the other. This relationship is depicted in Figure 2.2. The costs of producing goods and services and collecting taxes is reflected in the total cost curve (TC); the curve here is drawn in its traditional shape, with an initial portion of increasing returns and a later segment of decreasing returns to scale. As the size of the political unit increases, total costs begin to rise more rapidly. Each additional unit of territory also produces additional revenue: the state becomes the new local monopoly supplier of goods and services, and it taxes its new consumers accordingly. Total revenue increases with size, and is represented by the total revenue curve (TR). As shown in Figure 2.2, there is a single optimal size of the political unit where the marginal revenue from an additional unit of territory equals the marginal costs of production and collection in that unit; geometrically, this occurs at point O, where the slopes of the TR and TC curves are equal (demonstrated by the line segment parallel to TR and tangent to TC).

In the real world, there is no reason to expect either total revenue to rise monotonically (i.e., TR forms a straight line) or total costs to increase in an orderly manner over distance (i.e., the TC curve is smooth). Rather, the state is more likely to act as a discriminating monopolist, effectively taxing different regions at different rates depending upon the costs to the publics in those areas of controlling the state. This type of discriminatory policy would produce a kinked TR curve, with multiple segments of varying slope. Likewise, the goods and

services provided and the costs of production and revenue collection are likely to vary in different areas, meaning that the TC curve will also be kinked. If either the TC or TR curve is kinked, there may be multiple equilibria and more than one optimal size for the political unit. This is especially like to occur when the constituent parts of an empire differ culturally, geographically, and administratively in their relations with the imperial center. Which equilibrium obtains at a particular moment can, for our purposes, be attributed to historical circumstances, although this could obviously be specified further if necessary. In any case, the possible presence of multiple equilibria suggests that slight variations in revenues and costs may produce radical changes in the optimal size of the political unit. Thus, we might observe extreme changes in the size of the political unit arising from somewhat smaller changes in the underlying conditions.

Rents earned by the state, whether retained by state officials or redistributed to key support groups, increase the optimal size of the political unit. Each unit of territory now produces greater revenue for the state. The greater the revenue, the greater the costs that can be borne to capture that revenue in equilibrium. In short, each additional unit of territory is now worth more to the state, and the state is willing to bear a higher marginal cost to control it. Thus, a state with an increased rent-seeking capacity has an incentive to expand until marginal revenue and marginal cost are once again equalized at a new, larger size; or, equivalently, the optimal size for an autocratic state will be greater than that for a more democratic state. Geometrically, as illustrated in Figure 2.2, rents cause the total revenue line to rotate counterclockwise from the origin ( $TR' > TR$ ) and the equilibrium size to expand ( $O' > O$ ).<sup>56</sup> This relationship also holds true in reverse. As the rent-seeking capacity of a state declines, total revenue falls (e.g., from  $TR'$  to  $TR$ ) and the optimal size of the unit contracts (from  $O'$  to  $O$ ). If the revenue and cost curves are kinked, small changes in rents may again produce large changes in optimal size.

In sum, the greater the rent-seeking ability of the state, the larger its optimal size. This relationship will manifest as an imperialist bias in a state's foreign policy. The lesser the rent-seeking ability of the state, the smaller its optimal size and imperialist bias. When the constituent units of the empire differ in ways that affect the costs of producing state goods and services or the revenue generated by them, there may be multiple equilibria and more than one optimal size. If so, dramatic and discontinuous change in the optimal size of the state is possible.

The relationship between rents and optimal size appears to have held true in the former Soviet Union. For centuries, Russia has been autocratic. It has also been expansionist, spreading eastward and westward until it filled the Eurasian continent. For most of the last four hundred years, Russia has been the world's largest empire.<sup>57</sup> This is not, of course, to attribute the enormous size of the Russian Empire solely to state rent-seeking. There are many other autocratic states that do not grow to dominate continents, just as there are countries of nearly continental size with very limited monopoly powers. The factors and

trade-offs identified in the theory of relational contracting—scale economies, expected costs of opportunism, and governance costs—operate simultaneously and can either reinforce or counteract the effects of state rent-seeking. Yet, an analysis based solely on the theory of relational contracting would not distinguish between, say, the Baltic states, formally incorporated into the Russian Empire, and Poland, integrated only into the informal empire. Relational contracting theory cannot explain fully why the former were wholly subsumed within the Soviet Union, while the latter retained its nominal sovereignty and greater residual rights of control. Conversely, the theory of the monopoly state presented in this section suggests that the Baltic states and others were incorporated into the formal empire at least in part due to the imperialist bias of autocratic Russia. The reconstitution of the dismantled tsarist empire by the Communists once they had consolidated political power also supports this inference.

### *The Rent–Growth Trade-Off and the Dynamics of Empire*

Like all rent-seeking, state rent-seeking distorts the economy and reduces rates of economic growth.<sup>58</sup> Over time, as the distortions accumulate, the state can improve its returns by reducing rents, freeing the economy from monopoly restrictions, and stimulating growth. By the logic of the model presented in the previous section, as the state turns from seeking rents to encouraging growth, the optimal size of the political unit will contract. At this new equilibrium, with higher growth rates, reduced rents, and a smaller optimal size, the state is at least marginally better off than if it had retained its old economic strategy and remained at its former size. While there may be distributional consequences within the state—with factions more dependent upon rents opposing the contraction and those likely to gain from growth pushing for reform—the increase in their aggregate welfare suggests that state leaders will nonetheless support the reduction in the size of territorial unit that follows from the shift from rents to growth.

State rent-seeking benefits the state but harms society. The transfer of rents from citizens to state officials or their political supporters creates social dead-weight losses due to both the less-efficient use of resources and directly unproductive activities. The latter category includes the state's efforts to obfuscate its rents and citizens' efforts to monitor and restrain state rent-seeking; the social costs of directly unproductive activities may be substantial.<sup>59</sup>

As the state exercises its monopoly powers, citizens respond by adjusting their own economic activity: they choose not to invest in areas that compete with the state, they fail to invest in potential growth areas that might be expropriated by the state, or they reduce their work effort because returns are depressed by state extractions. To offset these distortions, the state typically creates selective incentives that, in turn, produce secondary distortions in the economy. For example, the Soviet Union kept the price of bread artificially low to help maintain minimal levels of public support. This low price, however, prompted consumers

to substitute bread for other food and nonfood goods, reducing the rate of return in other sectors—which, in turn, required a second round of state intervention to sustain investment levels. The end result of selective interventions is a vicious cycle of increasing inefficiency that ultimately impedes economic growth and, at an extreme, may even produce absolute economic decline. Again, the command economy of the Soviet Union demonstrates clearly the inefficiencies produced by politically motivated economic distortions.

As the economy grows, the demand for all goods and services grows as well. Holding the level of monopoly extraction constant, this growth benefits the state by increasing the market and, hence, the total rents earned. While growth benefits society as a whole, it also improves the total returns for the state and its constituent groups. As the economy declines or contracts, the demand for goods and services falls, harming the monopoly state. As distortions accumulate in the economy, the state thus faces a trade-off: increase the level of rent-seeking, which slows the rate of growth; or stimulate growth, which requires reducing its rents. At any moment in time, the state chooses the combination of rents and growth that maximizes its total return. As the distortions increase and the rate of growth declines over time, the state will shift away from rent-seeking and toward growth. To use a common metaphor, the state—if successful—enjoys a larger piece of pie on net; even though its share is proportionately smaller with reduced rents, the pie is larger with higher growth than it would be otherwise. As a result, the state, or the groups that receive rents created by the state, are better off and can be expected to support the change in economic strategy.

As deduced previously, as the state reduces its rent-seeking, the optimal size of the political unit will contract. In Figure 2.2, the total revenue curve falls ( $TR < TR'$ ) and the equilibrium moves toward the origin ( $O < O'$ ). The change in optimal size is a natural consequence of the change in economic strategy, and will therefore be accepted by the beneficiaries of state rents. Given the possibility of multiple equilibria, as noted in the previous section, and some uncertainty about the exact location of these equilibria, leaders may be surprised by the extent of the change in the optimal size of the state; but, having arrived at this new equilibrium, they will have no incentive to change it. This suggests that even substantial alterations in the territorial unit can occur with political support from the beneficiaries of the “old” system.

Finally, factions within the state or groups that receive a share of state rents may be affected by the shift in strategy in different ways. Like the military and related industries, which prospered under the former Soviet Union, groups whose interests are tied to state rents and who are unable to compete effectively in a freer economy will oppose the new emphasis on growth. They also would benefit from a reconstitution of the empire, and will form a core constituency in favor of rebuilding an imperial system. Groups that are less dependent upon state rents and more competitive will be the primary supporters of reform; they will also form the core of the anti-imperialist coalition. Focusing on the distributional

implications of state rent-seeking clarifies who should and should not support the empire—but distributional issues do not negate the larger point. As rent-seeking creates a vicious cycle of distortions and as growth rates fall, the state as a whole benefits from and can be expected to shift to a growth-oriented economic strategy. This shift necessarily implies a reduction in the optimal size of the territorial unit. This reduction, finally, will be accepted by central political leaders and their associated constituencies.

Thus, just as distortions in the subordinate state create an obsolescing bargain when viewed through the lens of relational contracting theory, state rent-seeking produces an inevitable dynamic toward the dissolution of empire—this time catalyzed by distortions within the dominant state itself. In both theories then, empires must eventually decline—a process that will unfold with the support of state leaders. Furthermore, the obsolescing bargain and the rent–growth trade-off can interact, hastening the day of imperial reckoning. Since the costs of empire tend to rise as distortions in the subordinate polity accumulate, rents earned by the imperial state will decline—reinforcing tendencies toward a contraction in the optimal size of the empire.<sup>60</sup>

As a stylization at least, the collapse of the Soviet Union closely fits this analysis. Growth rates in the Soviet Union declined throughout the 1970s, essentially stagnating by the early 1980s. To combat stagnation and revitalize the Soviet system, Mikhail Gorbachev sought to reduce the heavy hand of the state-managed command economy and stimulate new economic growth. He also undertook a series of political reforms designed to increase public control over the state and thereby institutionalize the new constraints on state power, which would in turn help reinforce and preserve the economic reforms.<sup>61</sup> As the Gorbachev reforms took hold, and as the leadership simultaneously sought to reduce the drain posed by the informal empire in Eastern Europe, the Soviet Union began to fracture. More specifically, key political entrepreneurs in the republics began to recognize both that the centralized system was no longer viable or appropriate and that the Soviet leadership would not resist efforts by peripheral areas to seek greater independence. Seizing this opening, these same political entrepreneurs pushed for greater autonomy and, as the theory predicts, the Soviet leadership capitulated more or less willingly. Both Soviet and republic leaders were surprised by the extent of the dissolution, but not by the general tendency.<sup>62</sup> Indicating the importance of political jurisdictions, and the variations in costs and revenue they both represent and create, the Soviet Union fractured along the lines of its federal republics—but no further, at least as of this writing.<sup>63</sup> Today, the same segments of the Russian political economy that oppose the reforms led by Boris Yeltsin (and others) support the rebuilding of the empire, while liberalizing segments generally oppose renewed imperialism.

Although there are, no doubt, many details that do not fit this stylization, the expectations of the theory and the general empirical record are remarkably congruent. Under an autocratic system of rule, the Soviet Union became one of the



largest empires in history. As the economy stagnated under the weight of the state monopoly, growth-oriented reforms were eventually enacted. In turn, the territorial unit contracted—in this case quite sharply. Interestingly, the importance of state rent-seeking is clearer in the decline of the Russian Empire than in its rise, which is more overdetermined. The analysis here is offered only as a theoretical interpretation, not as a test of the theory nor as empirical fact. Nonetheless, the interpretation is suggestive, I believe, and offers an explanation for the relatively peaceful nature of the collapse of the Soviet Union.

### **Implications for the Future and Policy**

Russia's informal empire in Eastern Europe was made possible by an unusual circumstance; as noted, the costs of establishing hierarchy in the region were sunk in the course of defeating Germany in World War II. While some limited hierarchy might have been expected in the region in any event, the coercive control of Eastern Europe obtained as a by-product of the war lowered effective governance costs and allowed a greater degree of hierarchy than would otherwise have been possible. Contiguous empires in the core of the international system are rare; the other empires examined in this volume are the other principal exceptions. Over the last five hundred years, most empires have been formed in the periphery of the global system, where state structures were either very weak or, in some cases, nonexistent. Today, as Iraq discovered, the costs of coercing established states into imperial relationships are simply too high. The creation of new empires are likely to be rare events.<sup>64</sup> Virtually the only exception to this generalization is the area of the former Soviet Union, where the successor states are now dealing with the afterglow of a centralized, hierarchical, and imperial political system. For this reason, I confine the discussion in this section to relations between Russia and the other successor states.

The economies of scale that produced the Soviet Union and, indeed, the informal empire in Eastern Europe largely remain in place today, but in a somewhat attenuated form. In the security realm, the technological gains from forward bases still exist. Nonetheless, the more general threats from Germany and the West that sustained the military economy of the Soviet Union have diminished with the end of the Cold War. In the economic arena, the distributional effects of the imperial collapse are critical. If the economic reformers and the competitive sectors of the economy that support them prevail, then Russia and the other successor states will turn toward international markets, and the need for an internal, imperial division of labor will decline. On the other hand, if the conservatives and the uncompetitive sectors dominate, then a shift toward a more autarkic economic strategy will necessitate a return to an internal division of labor. Not all of the successor states are likely to fall one way or the other in terms of preferred economic strategy, and there will be considerable variation in attitudes toward reintegrating the imperial economy. By opening their own mar-

kets and financially and politically supporting economic liberalization within the successor states, the United States and other powers can help tip the political balance within these states in favor of the economic reformers and away from the imperialists.

The internal hierarchy of the Soviet Union allowed for substantial investments in relationally specific assets. While these investments were a natural by-product of the internal division of labor, they were made possible by Soviet leaders' confidence that they could control the potential for opportunism by the subordinate members of the empire. As a result, there emerged over time in the Soviet Union highly specialized military bases outside Russia (e.g., missile testing and launching ranges); pipelines that traversed republics; integrated raw materials, processing plants, or manufacturing enterprises that spanned regions; and so on. Because the expected costs of opportunism within the empire were relatively low, facility locations were chosen not based on minimizing asset specificity between the republics but according to other economic and political criteria.

Today, even though the imperial hierarchy has collapsed, the specific assets remain. The potential for opportunism by one or both sides in any transaction is now considerably higher. Recognizing the higher expected costs of opportunism, one or both parties will be reluctant to utilize or rely upon such assets. In the prevailing anarchy, the successor states must either run the risk of exploitation by their partners or undertake costly investments that duplicate the partner's assets as a hedge against opportunism. The higher expected costs of opportunism create a mutual interest in re-creating some form of hierarchy. The high level of relationally specific assets between the successor states, which remain as a residue of the old empire, will create important and voluntary pressures to rebuild some degree of economic and political hierarchy in the region.<sup>65</sup> Since any empire not built entirely on coercion necessarily involves some exchange of benefits between center and periphery, a situation that Karen Dawisha calls *autocolonization*—or voluntary subordination within a political hierarchy—is necessarily present.<sup>66</sup> In the aftermath of the old Russian Empire, these pressures are likely to be especially strong.

The fact that hierarchy can be welfare enhancing for both Russia and the other successor states creates an important policy dilemma for the West. While analysts generally concur that preventing the reintegration of the Russian Empire is an essential policy goal, they also agree that stimulating growth and investment in the economies of the successor states is equally if not more important. To the extent that the efficient use of specific assets underlies both policy goals, as it does at present, an inherent contradiction exists. If relationally specific assets matter, then the West cannot have it both ways. It may need to encourage greater hierarchy to stimulate growth. Or, to inhibit greater hierarchy, it must provide greater direct assistance targeted at building specific assets tied to states outside the former Soviet Union.

The governance costs to Russia of rebuilding the hierarchy, however, are

likely to vary across the successor states. In some, most notably the Baltics, Russian suzerainty has been broken—in part with the aid and encouragement of the West. To re-create hierarchy in this area would require high levels of coercion and possibly result in conflict with Europe and the United States. The Baltic states are likely to remain outside Russia's control, even if they are not free from Russian influence on an episodic basis. Other states pushing for inclusion in the Western security sphere, such as Moldova, are hoping to achieve a similar level of independence. Lowering the hurdle for inclusion in Western political and security institutions will facilitate this end. At the other end of the spectrum, Russian troops remain in nearly all of the CIS states—placing them in much the same position as, say, Poland in 1945. Some successor states, plagued by internal weakness, have appealed to Russia for political and military support—and, like Georgia, have been brought back under Russia's hierarchical umbrella. Short of discouraging the use of coercion and encouraging the removal of Russian troops, which often remain by mutual consent, the leverage of the Western states over these governance costs is quite limited. Where hierarchy is necessary, the West should encourage mutual, voluntarily negotiated restrictions on potential opportunism. This is likely to produce movement toward confederation—a more benign form of hierarchy—rather than empire.

Over the next decade, we will observe a wide range of new political relations among the successor states, perhaps varying by issue area, that are all designed to reap the benefits of continuing scale economies while controlling problems of opportunism created by the imperial residue of specific assets. The greater the scale economies, the more likely it is that some form of cooperation will emerge between Russia and the other successor states; the smaller the scale economies, the more likely it is that the successor states will search for ties to Western states and the international economy more generally. The larger the specific assets, the greater the expected costs of opportunism and the more likely it is that relations between Russia and the successor states will once again become hierarchical. The smaller the governance costs of re-establishing and maintaining hierarchy, the more likely a new Russian empire will emerge. On balance, although the calculations here remain highly informal, some degree of hierarchy appears likely to reemerge from the wreckage of the Soviet Union. We are unlikely to see, a decade from now, anarchic relations between Russia and the other successor states. Relations in the region will not look like those between autonomous, sovereign, "Westphalian" states that characterize much of international politics. Rather, we are likely to find a range of relations, varying from protectorates to informal empires to empires and confederations. To understand relations between the successor states, the nineteenth-century colonial empires and Soviet–East European relations before 1989 are likely to provide analogies that are more instructive than European diplomacy and more helpful than mainstream international relations theory.

Western states do have some ability to influence the direction of change in the

former Soviet Union. Opening Western economies to the goods and services of the East and integrating former communist states into Western political and security institutions creates new and attractive options for the successor states and reduces the imperial pull of Russia. At the same time, the West should support noncoercive, voluntary confederations created to cope with problems of opportunism; given the tension between stimulating growth and impeding the reconstruction of the empire, inhibiting the emergence of new hierarchies between Russia and the other successor states cannot be an absolute objective for the West. The challenge will be to reassure Russia that its security and economic needs can be met outside of its former empire.

Equally important to the unfolding of the empire, however, is the future of the monopoly state in Russia. As with all states, this is not a matter of rent-seeking and imperialism or no rent-seeking and no imperialism. All states earn some rents; the question is simply of more or less bias. The critical determinant is the outcome of Russia's current internal political struggle. Who will emerge victorious: the groups privileged under the old autocratic system and dependent upon rent-seeking within the empire, or the democratic forces aligned with economic liberalizers and anti-imperialist groups? The future of democracy in Russia is, thus, intimately linked with both economic reform and the empire.

In this case, all good things go together—at least from the point of view of the United States and other concerned states. Support for democratic forces or economic reformers in Russia strengthens the anti-imperialists. Likewise, strong signals that the West will resist coercive attempts to reconstitute the empire weaken the autocratic and conservative economic forces. Integrating Russia and the other successor states into the open international economy and into Western political and security institutions—moves recommended largely for reasons of relational contracting—can help reinforce the domestic position of groups committed to democracy, economic reform, and life within current borders.

## **Conclusion**

This chapter, as the title asserts, is an interpretation of the rise, fall, and future of the Russian Empire informed by theories of relational contracting and the monopoly state. It is written from the perspective of an international relationist, not a scholar of Russian history, economics, or politics. While the case provides interesting variation on many of the independent variables in the general theory, and might otherwise constitute an appropriate series of observations for assessing its validity, the data necessary for rigorous tests have not been systematically assembled. In the limited purposes of this essay, the overall theory has provided two lenses through which to view a complicated history and has highlighted some patterns in the record that were previously ignored. Perhaps the most important contribution of the theory, in my view, lies in suggesting how—contrary to the expectations of many—the informal empire in Eastern Europe and

the formal empire embodied in the Soviet Union could disintegrate peacefully.

The theory also provides a sketchy road map for the future. Most pointedly, it suggests that at least some of the successor states are likely to be reintegrated into an informal, if not formal, Russian empire either voluntarily, in order to realize scale economies while minimizing the expected costs of opportunism, or by force, especially if the antireform forces prove politically triumphant in Russia. One thing is clear. As they mature, relations between the successor states are unlikely to resemble those between the autonomous, sovereign states often thought to characterize international politics. To understand the future, we must return to the study of imperialism.

## Notes

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1. David A. Lake, "Anarchy, Hierarchy, and the Variety of International Relations," *International Organization* 50, no. 1 (1996): 1–33; and *Entangling Relations: American Foreign Policy in Its Century* (forthcoming).

2. David A. Lake, "Powerful Pacifists: Democratic States and War," *American Political Science Review* 86, no. 1 (1992): 24–37.

3. This taxonomy and the labels are from Michael W. Doyle, *Empires* (Ithaca: Cornell University Press, 1986).

4. Vladimir Lenin, *Imperialism: The Highest Stage of Capitalism* (New York: International Publishers, 1939).

5. John Gallagher and Ronald Robinson, "The Imperialism of Free Trade," *The Economic History Review*, 2nd ser., 6, no. 1 (1953): 1–15.

6. See, for example, Kenneth N. Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley, 1979). The best extended discussion of imperialism from a realist perspective remains Benjamin J. Cohen, *The Question of Imperialism: The Political Economy of Dominance and Dependence* (New York: Basic Books, 1973).

7. Tony Smith, *The Pattern of Imperialism: The United States, Great Britain, and the Late-Industrializing World Since 1815* (New York: Cambridge University Press, 1981); Doyle, *Empires*; and P.J. Cain and A.G. Hopkins, *British Imperialism*, 2 vols. (New York: Longman, 1993).

8. Pablo Gonzáles Casnova, "Imperialism," in Joel Krieger, ed., *The Oxford Companion to Politics of the World* (New York: Oxford University Press, 1993), p. 410.

9. Hans Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, 5th rev. ed. (New York: Alfred A. Knopf, 1978), p. 57.

10. Harry Magdoff, *The Age of Imperialism: The Economics of U.S. Foreign Policy* (New York: Monthly Review, 1969); Johan Galtung, "A Structural Theory of Imperialism," *Journal of Peace Research* 8 (1971): 81–109.

11. See Cohen, *The Question of Imperialism*, p. 16.

12. On the concept of relational hierarchy, see Oliver E. Williamson, *The Economic Institutions of Capitalism: Firms, Markets, and Relational Contracting* (New York: Free

Press, 1985); and Thráinn Eggertsson, *Economic Behavior and Institutions* (New York: Cambridge University Press, 1990).

13. See Bruce Parrott, chapter 1 of this volume.

14. Moreover, in the theory of relational contracting developed in this chapter, there is no analytic reason to distinguish between the empires that predated the Soviet Union, existed under seven decades of communism, and are likely to follow the demise of the Soviet Union.

15. This is a slightly stronger definition of cooperation than the existing standard in the literature, which emphasizes only mutual adjustment of policies. See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984), p. 12.

16. Waltz, *Theory of International Politics*. On the concept of sovereignty as constitutional independence, see Alan James, *Sovereign Statehood: The Basis of International Society* (Boston: Unwin and Hyman, 1986).

17. In chapter 12, Kahler also defines empire as a monopoly of external ties. This characteristic of empire naturally and logically follows from hierarchy and can be thought of as a derived feature of empire.

18. Parrott, in chapter 1 of this volume, and Dawisha, in chapter 14 of this volume, follow Alexander J. Moytl and restrict empire to relations between one core state and two or more peripheral societies. Moytl, "Thinking about Empire: A Conceptual Inquiry with Some Implications for Theory," in Karen Barkey and Mark von Hagen, eds., *Imperial Collapse: Causes and Consequences* (Boulder, CO: Westview Press, forthcoming). There is little analytic reason for this restriction. The Strategic Trust Territory of the Pacific, formed as an American empire after World War II, is hierarchical even though there is only one subordinate polity. Of the other definitions in this volume, Hendrik Spruyt conflates the process of creation, through coercion, with the outcome of empire. Dawisha adds a requirement of intentionality, while I prefer to allow for the possibility of unwitting empire.

19. A third intermediate relationship may also exist between alliances and protectorates. In what is commonly called a sphere of influence, the dominant state (e.g., Russia) precludes the subordinate state (e.g., Finland) from entering into relationships with third parties—a weak infringement on the latter's residual rights of control, but an infringement nonetheless. The possible relationships discussed in the text and illustrated in Figure 2.1 are not exhaustive. For a discussion of the variety of intermediate relations that is related to but does not directly use the definition of hierarchy developed here, see W.W. Willoughby and C.G. Fenwick, *Types of Restricted Sovereignty and of Colonial Autonomy* (Washington, DC: Government Printing Office, 1919; reprint, *The Inquiry Handbooks*, vol. 16, Wilmington, DE: Scholarly Resources, 1974). Despite its breadth, this work did not anticipate many modern relationships, including free trade areas, economic unions, or political unions.

20. For a related discussion, see Philip G. Roeder, "From Hierarchy to Hegemony: Patterns of Security Among the Soviet Successor States," in David A. Lake and Patrick Morgan, eds., *Regional Orders: Building Security in a New World* (University Park: Pennsylvania State Press, 1997).

21. Doyle, *Empires*, pp. 38, 42.

22. The problem with recognizing any informal relationship is that the exercise of residual rights of control is evident only in out-of-equilibrium behavior. In the case of an informal empire, for instance, when the limited rights of the client are understood by both parties, no resistance occurs, no overt coercion is necessary, and the local government complies with the wishes of the dominant state *as if* in an alliance. Only if the client tests its constraints or the patron's patience will the informal imperial controls become mani-

fest. As a result, informal relationships can be discerned only by observing interactions over extended periods in order to increase the chances of encountering anomalous behaviors. The imperial nature of Soviet–East European relations was made clear even though the relationship was informal: the subordinate peoples consistently tested the limits of informal Soviet rule, sparking suppressions of local dissent in East Germany in 1953, Hungary in 1956, Czechoslovakia in 1968, and (indirectly) Poland in 1981.

23. See Karen Dawisha and Bruce Parrott, *Russia and the New States of Eurasia: The Politics of Upheaval* (New York: Cambridge University Press, 1994); Len Aron and Kenneth M. Jones, eds., *The Emergence of Russian Foreign Policy* (Washington, DC: United States Institute of Peace, 1994); and Michael Mandelbaum, ed., *Central Asia and the World* (New York: Council on Foreign Relations, 1994).

24. Williamson, *Economic Institutions*; and Eggertsson, *Economic Behavior*. For applications to international relations, see Keohane, *After Hegemony*; and Beth V. Yarbrough and Robert M. Yarbrough, *Cooperation and Governance in International Trade: The Strategic Organizational Approach* (Princeton: Princeton University Press, 1992). A frequent criticism of this approach is that states, unlike firms, are not fully rational, cannot accurately calculate transactions costs, do not value resources for alternative uses, and do not optimize across alternatives. It is unlikely that firms possess these characteristics or perform these activities well either. Much of modern microeconomic theory is devoted to studying the causes and consequences of such departures from unbounded rationality and complete and perfect information. For a strong defense of the comparative efficiency of political as opposed to economic markets, see Donald Wittman, *The Myth of Democratic Failure: Why Political Institutions are Efficient* (Chicago: University of Chicago Press, 1995). Although Wittman focuses on democratic political regimes, it is precisely the departures from this democratic ideal that motivates the theory of the monopoly state below.

25. For example, see Keohane, *After Hegemony*, pp. 67–78.

26. For cooperation to occur, only one party needs to enjoy larger scale economies; one-sided gains can be redistributed to the partner to induce the necessary adjustments in its policies. By themselves, scale economies tell us little about the distribution of the joint gain between the parties. This is determined by a separate but related bargaining game, the outcome of which will be determined by differences in the opportunity costs of the actors (see the next section).

27. Richard Bean, “War and the Birth of the Nation-State,” *Journal of Economic History* 33 (1973): 203–21; Frederic C. Lane, *Profits from Power: Readings in Protection Rent and Violence-Controlling Enterprises* (Albany: State University of New York Press, 1979).

28. Helen V. Milner, “Firms, States, and the Creation of Regional Trade Blocs,” in Edward Mansfield and Helen V. Milner, eds., *The Political Economy of Regionalism: The Second Wave* (New York: Columbia University Press, forthcoming).

29. George Quester, *Offense and Defense in the International System* (New York: John Wiley and Sons, 1977).

30. Security externalities among allies point to an important exception. See Joanne Gowa, *Allies, Adversaries, and International Trade* (Princeton: Princeton University Press, 1994).

31. See David M. Glantz, *The Military Strategy of the Soviet Union: A History* (London: Frank Cass, 1992), esp. pp. 176–80; and R. Craig Nation, *Black Earth, Red Star: A History of Soviet Security Policy, 1917–1991* (Ithaca: Cornell University Press, 1992). Edward N. Luttwak, *The Grand Strategy of the Soviet Union* (New York: St. Martin’s, 1983), p. 19, suggests that a forward-based strategy was not, in fact, central to postwar planning and politics. On the comparison with the United States, see Lake, *Entangling Relations*.

32. On abandonment and entrapment, see Glenn H. Snyder, "The Security Dilemma in Alliance Politics," *World Politics* 36 (1984): 461–95.

33. Benjamin Klein, Robert G. Crawford, and Armen A. Alchian, "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," *Journal of Law and Economics* 21 (1978): 297–326. Asset specificity can also be understood as the transactions costs of changing relations.

34. For a comparison of the expected costs of opportunism to the United States and Soviet Union after 1945, see Lake, "Anarchy, Hierarchy, and the Variety of International Relations."

35. David J. Dallin, *Soviet Russia's Foreign Policy, 1939–1942* (New Haven: Yale University Press, 1942), p. 242.

36. Czechoslovakia, at first, and Finland, throughout the postwar period, were allowed a substantially longer leash by Moscow than the other states of the region. Nation, *Black Earth*, p. 177, notes that this "rested upon an intact national consensus and positive orientation toward the USSR that did not exist elsewhere."

37. Randall Stone, *Satellites and Commissars: Strategy and Conflict in the Politics of Soviet-Bloc Trade* (Princeton: Princeton University Press, 1995).

38. For reasons of space, this chapter does not discuss a third set of governance costs: safeguards on the dominant state. Briefly, relational hierarchy shifts the locus of opportunism from the subordinate partner to the dominant state. As the partner's rights of residual control decline, the rights of the dominant state over it expand—increasing the potential that the latter will act opportunistically toward the former. In the absence of coercion, the subordinate partner will not submit to this vulnerable position unless the behavior of the dominant state is adequately and credibly safeguarded in the agreement. As a result, dominant states must undertake costly actions to bind themselves to the terms of the contract and, especially, to commit to exercise their expanded residual control in a non-opportunistic manner. These costs appear less relevant to the Russian case. For a more detailed discussion of the costs of safeguards on the dominant state, see Lake, "Anarchy, Hierarchy and the Variety of International Relations."

39. This argument has a direct analog in the case of private firms; see Sanford J. Grossman and Oliver D. Hart, "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration," *Journal of Political Economy* 94 (1986): 691–719.

40. The term *obsolescing bargain* was originally used to describe shifts in bargaining leverage between states and firms. See Raymond Vernon, *Sovereignty at Bay: The Multi-national Spread of U.S. Enterprises* (New York: Basic Books, 1971). Its usage is equally appropriate here.

41. Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982), argues that accumulating interest groups would have the same effect. Olson's argument runs parallel to but is nonetheless distinct from the one advanced here.

42. Solomon Wank, in chapter 4 of this volume, suggests that under these circumstances, imperial states inevitably try to appease the subordinate polity and correct the distortions that follow from hierarchy by devolving a greater degree of autonomy onto the peripheral unit. This may be a common response to the obsolescing bargain. However, it is important to recognize that it is not the devolution of authority per se that causes imperial disintegration but the obsolescing bargain that drives both the initial response (devolution) and the eventual outcome (collapse).

43. The most sophisticated study of conflict within a neoclassical approach is Jack Hirshleifer, *Economic Behaviour in Adversity* (Chicago: University of Chicago Press, 1987).

44. This contrasts with the situation facing the United States in Western Europe. See Lake, "Anarchy, Hierarchy, and the Variety of International Relations."



45. Zbigniew K. Brzezinski, *The Soviet Bloc: Unity and Conflict*, rev. and enl. (Cambridge: Harvard University Press, 1967), pp. 285–86.

46. The record of the debate over implicit prices subsidies is vast. See Michael Marrese and Jan Vanous, *Soviet Subsidization of Trade with Eastern Europe: A Soviet Perspective*, Research Series, no. 52 (Berkeley: University of California Institute of International Relations, 1983); Paul Marer, “The Political Economy of Soviet Relations with Eastern Europe,” in Sarah Meiklejohn Terry, ed., *Soviet Policy in Eastern Europe* (New Haven: Yale University Press, 1984); Jozef M. van Brabant, “The USSR and Socialist Economic Integration: A Comment,” *Soviet Studies* 36 (1984): 127–38; Keith Crane, *The Soviet Economic Dilemma of Eastern Europe* (Santa Monica: RAND, 1986); and Kazimiera Z. Poznanski, “Opportunity Cost in Soviet Trade with Eastern Europe: Discussion of Methodology and New Evidence,” *Soviet Studies* 40 (1988): 290–307. On the politics of implicit trade subsidies, see Stone, *Satellites and Commissars*.

47. Valerie Bunce, “The Empire Strikes Back: The Transformation of the Eastern Bloc from a Soviet Asset to a Soviet Liability,” *International Organization* 39 (1985): 1–46.

48. Stone, *Satellites and Commissars*, p. 45.

49. See Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965); and Olson, *Rise and Decline of Nations*. For a sense of this concept’s impact on the discipline, see Jeffrey S. Banks and Eric A. Hanushek, eds., *Modern Political Economy: Old Topics, New Directions* (New York: Cambridge University Press, 1995).

50. Jack Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca: Cornell University Press, 1991).

51. But see Lane, *Profits from Power*; Douglass C. North, *Structure and Change in Economic History* (New York: W.W. Norton, 1981); and Lake, “Powerful Pacifists.”

52. From a social welfare point of view, these goods may be most efficiently produced by the state. For example, since parents are uninformed about the best educational methods and since their children will suffer the consequences of poor choices, it may be appropriate to vest this production activity in centralized hands—even recognizing that the state will act as a monopolist in this area as well.

53. Nonetheless, it would appear that the Soviet state was not as rapacious as it might have been, given its domestic political system (see the next section). I do not address here whether this stemmed from a commitment to communist ideology, some other internal factor, or—more likely, I believe—from the always threatening international environment in which the Soviet Union was embedded. On this last point, see North, *Structure and Change*. The important conclusion, however, is that the Soviet state most likely did earn higher rents than relevant democratic states, like the United States, that shared a similar position in the international environment.

54. Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge: Harvard University Press, 1970).

55. On the optimal size of nations, see Bean, “War and the Birth of the Nation-State”; David Friedman, “A Theory of the Size and Shape of Nations,” *Journal of Political Economy* 85 (1977): 59–77; Leonard Dudley, “Punishment, Reward, and the Fortunes of States,” *Public Choice* 74 (1992): 293–315; Donald Wittman, “Nations and States: Mergers and Acquisitions; Dissolutions and Divorce,” *American Economic Review (Papers and Proceedings)* 81 (May 1991): 126–29; Beth V. Yarbrough and Robert M. Yarbrough, “International Contracting and Territorial Control: The Boundary Question,” *Journal of Institutional and Theoretical Economics* 150 (1994): 239–64; and Ronald Findlay, “Towards a Model of Territorial Expansion and the Limits of Empire” (manuscript, 1994). For a more philosophical treatment, see Robert A. Dahl and Edward R. Tufte, *Size and Democracy* (Stanford, CA: Stanford University Press, 1973).

56. For expositional clarity, I assume the total cost curve does not change when the state earns rents. This is obviously a simplification. Even if costs increase modestly with state rent-seeking, the imperialist bias will still arise. For a discussion of why changes in costs will tend to be smaller than changes in revenue, see Lake, "Powerful Pacifists," p. 27.

57. Russia is also the third largest empire in human history. Rein Taagepera, "Size and Duration of Empires: Systematics of Size," *Social Science Research* 7 (1978): 108–27, esp. 117, 126.

58. Olson, *Rise and Decline of Nations*; also Mancur Olson, "Dictatorship, Democracy, and Development," *American Political Science Review* 87 (1993): 567–76.

59. Focusing on social rent-seeking, but with a logic parallel to that developed here, Stephen P. Magee, William A. Brock, and Leslie Young, *Black Hole Tariffs and Endogenous Policy Theory: Political Economy in General Equilibrium* (New York: Cambridge University Press, 1989), demonstrate that rent-seeking, under certain conditions, can escalate to consume virtually the entire national product. See also Jagdish N. Bhagwati, "Directly Unproductive, Profit-Seeking DUP Activities," *Journal of Political Economy* 90 (1982): 69–90.

60. Note, however, that autocratic states may be able to hold onto empire longer than more democratic states. Rents earned by the state provide a cushion against the rising costs of distortions in the subordinate polity. These accumulating distortions, however, lead empires to end earlier than if rents were the only factor at issue.

61. On the functioning of the command economy and the various reforms, see Zbigniew Brzezinski, *The Grand Failure: The Birth and Death of Communism in the Twentieth Century* (New York: Macmillan, 1990); Anders Åslund, *Gorbachev's Struggle for Economic Reform*, updated and rev. ed. (Ithaca: Cornell University Press, 1991); János Kornai, *The Socialist System: The Political Economy of Communism* (Princeton: Princeton University Press, 1992).

62. On the push for independence, see Walter C. Clemens, Jr., *Baltic Independence and Russian Empire* (New York: St. Martin's, 1991); Ronald Misiunas and Rein Taagepera, *The Baltic States: Years of Dependence, 1940–1990*, enl. and updated ed. (Berkeley and Los Angeles: University of California Press, 1993).

63. In Chechnia and in the Caucasus more generally, the dominant non-Russian culture and history of opposition to central rule may yet produce a further unraveling of the Russian empire.

64. Within the core, what were once empires were consolidated into centralized states (e.g., France and Germany)—suggesting that the line between empire and nation-state may be ambiguous. As recent trends in Spain, Britain, Canada, and elsewhere suggest, the progression from empire to nation-state may not be unidirectional. Once-centralized states may now be unraveling, and if they are to remain unified the heavy hand of imperial repression may be required. At the same time, we may in the future observe the creation of some voluntary hierarchies in the form of confederations. The European Union is well on its way toward this end.

65. In chapter 6 of this volume, Mark Beissinger cites the example of Kazakhstan, where the absence of expertise and spare parts has led the government to transfer operational authority of several dozen petrochemical, ore refining, and machine building enterprises to a Russian holding company.

66. Dawisha, chapter 14 of this volume.