CHAPTER 6

Yugoslavia, the USSR, Czechoslovakia—and Russia

Previous chapters have argued that an important contributor to national integration in Russia in the 1990s was the central authorities' use of fiscal transfers and tax breaks to appease many of the government's most vocal regional critics. Chapters 3 through 5 presented evidence that such a pattern of redistribution did in fact occur and showed how it could slow the formation of bandwagons of regional protest. The logic of the argument of chapter 1 is formalized in a simple political economy model in appendix A.

This chapter places Russia's experience in comparative context. Alarm over Russia's cohesion in the early 1990s was fueled in part by comparisons to the three other communist federations that had existed in the late 1980s. In the Soviet Union, Czechoslovakia, and Yugoslavia, communist leaders had adopted pseudo-federal structures in the hope of preventing or co-opting potential nationalist challenges from minority ethnicities. Yet as the party's control weakened and governments attempted economic and political reforms, ethnically defined subunits became a focus of conflict with the central authorities. In Yugoslavia and the Soviet Union, challenges spiraled until even initially reluctant separatists began to join in. The result was a central fiscal crisis as more and more regions refused to remit tax revenues.

To some observers, the collapse of reforming communist federations seemed inevitable. Economic crisis and ethno-federal structure appeared to be a particularly explosive combination.[1] Yet Russia had both these features. Indeed, its economic crisis in 1992–93 appeared in many ways more severe than that faced by any of the other three prior to dissolution.[2] Unilateral tax withholding had spread to more than 30 of the country's 89 regions by late 1993.

If, as argued in this book, central fiscal appeasement helped to contain such pressures in Russia, did it fail in these other three cases? This chapter examines the fiscal crises and central responses in pre-dissolution Yugoslavia, Czechoslovakia, and the Soviet Union. It finds that, in fact, in no other case was a similar policy attempted. In none of the three did the central regime direct resources disproportionately toward the most credible separatist regions. In part, strategies of central economic or fiscal accommodation were not attempted because those controlling central policy did not place a sufficient priority on national integration.[3] But in part, appeasement was passed up because central politicians mistakenly chose other policies that actually exacerbated centrifugal splits.

This chapter does *not* pretend to offer a full analysis of all the reasons for disintegration in each country or to assess whether fiscal appeasement could have overcome them. Each of the cases differed from the others and from Russia in significant ways, and fiscal policy was only one element in a complex mix of historical factors and strategic choices.[4] Obviously, a strategy of selective fiscal appeasement can only work within certain boundary conditions—if divisions are too great or central resources too meager, such a policy will not be enough to prevent secession. Another book would be required to examine adequately whether a feasible central policy existed in Yugoslavia, Czechoslovakia, or the USSR that could have forestalled the split. The goal here is much more limited. If fiscal appeasement is to be a convincing explanation of Russia's fate, the argument must be at least consistent with the course of events in these three other countries. If a similar strategy of fiscal appeasement *was* attempted in any of these and *exacerbated* rather than alleviated the centrifugal dynamic, this would cast doubt on the story told.

To calculate accurately the aggregate balance of fiscal flows in any one of these countries would pose formidable challenges. No definitive accounting is available, and the pattern of fiscal favoritism in each is debated. The analysis offered in this chapter is no more than a rough attempt to estimate the approximate scale and direction of visible redistribution. No claims of precision can be made. However, considerable information and statistical data about each country's last years are available; and so, exercising due caution, I believe some tentative conclusions can nevertheless be reached.

Fiscal Crises in Four Countries

The political crises that preceded the collapse of Yugoslavia, the USSR, and Czechoslovakia varied in many ways. But each had a clear fiscal element. In Yugoslavia, republic leaders had been arguing about the level of fiscal transfers since at least the mid-1980s, and by late 1990 both Serbia and Slovenia had simply stopped remitting part of their federal tax (Mencinger 1993, 84; Zizmond 1992, 110). A similar scenario occurred in the Soviet Union in late 1991, as an increasing number of republics combined political defiance of the Union government with fiscal withholding, starving central agencies of funds. In Slovakia, resentment at a perceived failure of the Prague government to respond adequately to the republic's relatively more severe economic crisis helped fuel support for politicians advocating independence.

Yet, this did not distinguish these cases from the experience of Russia. In fact, the fiscal crisis Russia faced in the early 1990s was in many ways as severe—and its fiscal system as vulnerable—as those in the three communist federations that disintegrated. This section examines the similarities and differences in the crises that rocked the budgetary systems of these four countries and in the structure of their fiscal institutions.

One feature common to all four was a central government with relatively meager revenues. In Yugoslavia, Czechoslovakia, and the Soviet Union, the federal budget's own revenues in the year before disintegration came to less than 12 percent of GDP (see table 6.1). In Russia, federal own revenues dipped below this level in 1993 and approached it again in 1996, when federal revenues came to 12.5 percent of GDP, or about 10.7 percent if sales of foreign exchange are excluded.[5] By comparison, central government revenues in the early 1990s came to about 40 percent of GDP in Italy, 36 percent in Austria, 19 percent in the United States, and 17 percent in Belgium and South Korea.[6]

However, if all four central governments had anemic revenues, the history behind this differed. In Yugoslavia, extreme decentralization had been the norm since the constitutional reforms of the early 1970s. By 1985, the federal government in Belgrade collected less than 5 percent of gross social product (GSP) in revenue, and it spent this mostly on supporting the Yugoslav National Army, paying military pensions, financing central administration, and supplying a Federal Development Fund that redistributed investment resources from the richer northern republics to the less developed southern ones. The vast majority of public services and infrastructure projects were financed by associations of consumers and providers known as "self-governing communities of interest", at the local or republic level. In fact, in 1989-90, the federal government of Ante Markovic was attempting to *recentralize* budget revenues somewhat as part of the IMF-monitored stabilization program, bringing previously off-budget items on budget and increasing sales tax to pay for social safety net spending and rehabilitation of the banking system. Both revenues and expenditure increased as a percentage of GSP in 1990, though both still remained under 10 percent (Mihaljek 1993; OECD 1990).[7]

By contrast, Czechoslovakia and the USSR were both undergoing a decentralization of revenue and spending to the republic governments in their final years—in the former by design, in the latter largely by default. Before 1990, Czechoslovakia had been highly centralized, with the federal government collecting nearly 50 percent of revenues, compared to 28 percent for the republics. Most of this federal revenue, however, had been transferred down to the republics to spend. In the early 1990s, the system was reformed to give the republics their own revenue sources in line with expenditures and to reduce the need for federal transfers. As a result, by 1992 the breakdown of revenues had been reversed, with the federal government collecting 22 percent and the republics raising 65 percent. Republic revenues and spending both increased between 1989 and 1992 as a share of GDP, though federal spending levels remained relatively constant (see table 6.2). The Soviet system suffered a drastic

TABLE 6.1. Federal Own Revenue in Three Reforming Communist Federations and Russia

	Federal Own Revenue										
	1985	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Yugoslavia[a] (% GSP)	3.5	4.9	4.6	4.4	9.7	—					
(% cons. bud. rev.)		45.0			45.5						
USSR (% GDP)				21.3	23.9	2.9[b]	—				
(% cons. bud. rev.)				52.0	59.5	11.4					
Czechoslovakia (% GDP)				26.2	18.8	12.7	11.7	—			
(% cons. bud. rev.)				47.8	32.9	24.8	22.2				
Russia (% GDP)							15.9	11.8	13.3	13.7	12.5
(% cons. bud. rev.)							55.4	44.0	47.7	52.5	50.4

Source: Czechoslovakia: *Statistická Rocenka Ceské Republiky 1993* (Prague: Cesky Statisticky Urad, 1993, 119), *Statistická Rocenka Ceské a Slovenské Federativni Republiky 1991* (Prague: Federalni Statisticky Urad, 1991,151). USSR: IMF, *The Economy of the Former USSR in 1991* (Washington, DC: IMF, April 1992, 67–68). Yugoslavia: Mihaljek (1993, 190.) Russia: Working data of World Bank, April 1997; 1994 without Chechen republic; cash not commitment basis.

[a]Ministry of Finance estimate.

[b]1991 January–October.

TABLE 6.2. Federal Expenditures in Three Reforming Communist Federations and Russia

	Federal Expenditures (excluding grants to republics)									
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Yugoslavia (% GSP)	5.7	5.1	5.1	9.8	—					
USSR (% GDP)			24.3	30.6	9.8[a]	—				
Czechoslovakia (% GDP)			9.3	10.8	12.0	11.4	—			
Russia (% GDP)						23.4	17.2	18.6	15.7	12.3

Source: Czechoslovakia: *Statistická Rocenka Ceské Republiky 1993* (Prague: Cesky Statisticky Urad, 1993, 119), *Statistická Rocenka Ceské a Slovenské Federativni Republiky 1991* (Prague: Federalni Statisticky Urad, 1991,151). USSR: IMF, *The Economy of the Former USSR in 1991* (Washington, DC: IMF, April 1992, 67–68). Yugoslavia: Expenditures 1987–89 from OECD 1990, 1990 calculated from Mihaljek 1993. Russia: 1992–94: Le Houerou 1995, tables 1.1, A1–3; 1996: from Institute for the Economy in Transition, *Economic Trends and Perspectives* (February 1997). Expenditures exclude intergovernmental transfers; 1994 without Chechen republic; cash not commitment basis. 1995: *Russian Economic Trends* (1996, 5, 2, calculated from 11, 12, 22, 28–29). Figures have been adjusted where appropriate to exclude intergovernmental transfers, using data from Lavrov (1996, table 2). 1996: *Russian Economic Trends* (1996, 5, 2, 11), expenditures adjusted for center-region transfers (these estimated at 1.5% of GDP = average for I and II quarters, from *Russian Economic Trends* (1996, 5, 2, 11, 27).)

[a]1991 January–October.

hemorrhage of revenue from the center to the republics in 1990–91, as the republics—often unilaterally—halted tax payments. The federal budget's estimated own revenues dropped from about 24 percent of GDP in 1990 to less than 3 percent in the first 10 months of 1991.

As in the Soviet Union and Czechoslovakia, Russia's federal revenues showed a distinct downward trend, though the decline was at a more moderate pace—from 15.9 percent of GDP in 1992 to 12.5 percent in 1996. Thus, if meager federal budget revenues are a risk factor in reforming federations, Russia was nearly as badly off as Czechoslovakia or Yugoslavia.

The federal budget's problems in these countries do not seem to have been shared to the same extent by other levels of the state. In all four cases, lower levels' revenues either *increased* as a percentage of GDP or at least fell less than federal revenues. These fiscal crises did not represent a growing failure of the state at all levels to collect taxes, except in Russia in 1995–96 when both federal and regional/local budget revenues were falling. To a considerable extent, the center's fiscal troubles seem to have reflected a redistribution of revenue to lower level budgets.

The USSR suffered the most marked drop in consolidated budget revenues. But the estimated fall in Soviet consolidated budget revenues—from about 40 percent of GDP in 1990 to about 26 percent in 1991—was much smaller than the fall in federal revenues—from 24 to 3 percent (see table 6.3). About one-third of the center's losses were actually offset by increases in republic level and local budgets. If revenues from off-budget funds are included, the actual drop is even less extreme, from about 45 percent in 1990 to 35 percent in 1991.[8] In Czechoslovakia, consolidated budget revenues hardly fell at all between 1989 and 1992: the drop in federal revenues was almost completely compensated by increases in republic and lower level budgets. (However, revenues of off-budget funds apparently did drop sharply during this period.)[9] As already mentioned, both federal and republic revenues increased in Yugoslavia—consolidated revenues almost doubled between 1987 and 1990.

In Russia, regional and local budget revenues increased during the first period of the center's fiscal crisis, rising from 12.8 to 15.0 percent of GDP between 1992 and 1993, as federal budget revenues fell from 15.9 to 11.8 percent (see table 3.1 in chap. 3). However, regional revenues subsequently fell while federal revenues recovered, only to drop again in 1996. Russia's consolidated state budget gathered 28.7 percent of GDP in 1992 and 24.8 percent in 1996 in revenues. (The drop is somewhat larger if off-budget fund revenues are included—from 46.1 percent of GDP in 1992 to 33.9 in 1995—a larger fall than the USSR experienced in its disastrous final year.) Thus, the nature of the fiscal crises in these countries usually had more to do with a reallocation of revenues between levels than a collapse of tax collecting capacity per se. Yugoslavia, Czechoslovakia, and the USSR evidently did not collapse because of

TABLE 6.3. Consolidated Budget Revenues in Three Reforming Communist Federations and Russia

	Consolidated Budget Revenues									
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Yugoslavia (% GSP)	10.9			21.3	—					
USSR (% GDP)			41.0	40.2	25.5	—				
Czechoslovakia (% GDP)			54.8	57.1	51.2	52.7	—			
Russia (% GDP)					33.7[a]	28.7	26.8	27.9	26.1	24.8

Source: Russia: 1991, from Aleksashenko (1992). Other years, working data of World Bank, April 1997. Czechoslovakia: *Statistická Rocenka Ceské Republiky 1993* (Prague: Cesky Statisticky Urad, 1993, 119), *Statistická Rocenka Ceské a Slovenské Federativni Republiky 1991* (Prague: Federalni Statisticky Urad, 1991, 151). Yugoslavia: calculated from Mihaljek (1993). USSR: from Aleksashenko (1992, 446). Fischer (1992, 89), for 1989.

[a]Estimates of Sergei Aleksashenko. IMF estimates (IMF Economic Reviews *Russian Federation*, April 1992, 70) of “enlarged actual Russian budget (with takeover)” for 1991 differ from these estimates. The Fund estimates this at 287.6 bn Rs, or 25.5% of GNP.

atrophy of the tax collection agencies or greater resistance of citizens to paying taxes, and Russia did not survive because of an unusually effective tax service.

Large federal budget deficits are often viewed as signs of particularly severe fiscal crises. Yet, such problems do not explain the collapse of these post-communist federations. Both Czechoslovakia and Yugoslavia had no significant central deficit, and despite dwindling republic contributions the Belgrade government appeared quite able to finance its spending from its share of sales tax and customs duties (see table 6.4). By the end of 1991, the Soviet Union did have a sizable deficit of the Union budget—5.8 percent of GDP before taking into account extrabudgetary funds, debt write-offs, and compensation to savings deposits, which would have boosted the deficit to about 17 percent. Russia, the one survivor in the group, had even higher federal deficits, reaching 9.0 percent of GDP in 1992 and 8.0 percent of GDP in 1993. If off-budget funds are included in the accounting, the Russian federal deficit in 1992 was actually around 20 percent.

One feature common to all was an element of tax sharing between federal and republic or regional levels. In Czechoslovakia in 1992, turnover and profit taxes were collected by the federation but then divided between the federation and republics in predetermined proportions. In the other three federations such tax sharing was the subject of considerable ongoing negotiation. While the Yugoslav federal budget received all the revenue from tariffs, it shared with the republics proceeds from the federal sales tax and received additional contributions from the republic budgets. The shares and contributions were negotiated annually between the two sides. In Russia, the tax service is formally subordinated to the central government, but in practice its regional branches rely on and cooperate with the local authorities. VAT and corporate profit tax were shared in the mid-1990s at rates established in annual budget laws. In the USSR after 1988, profit taxes from Union enterprises were shared with the republics.

One feature of fiscal practice that may set Russia apart from the other post-communist federations is recent change in the level of intergovernmental fiscal transfers. While transfers between different level budgets constitute only one in a range of channels of fiscal and financial redistribution, they may affect both elite and public perceptions of mutual dependency or regional interest. In Czechoslovakia and Yugoslavia, the volume of transfers between federal and republic governments fell practically to zero in the years before federal collapse (see tables 6.5 and 6.6). Interestingly, the balance of such flows had been going in opposite directions in the two countries. In Czechoslovakia, the center had been making large transfers to the republics. These were deliberately reduced by the central reformers, who instead increased the republics' own revenue sources. Federal transfers to lower levels fell from 17 percent of GDP in 1989 to 0.5 percent in 1992. In Yugoslavia, in the past the republics had been making contributions to the center to help finance federal programs. These con-

TABLE 6.4. Federal Budget Balance in Three Reforming Communist Federations and Russia

	Federal Budget Balance									
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Yugoslavia (% GSP)	0.0	0.0	0.6	0.1	—					
USSR (% GDP; 1991 Jan.–Oct.)			−3.1	−6.3	−5.8[a]	—				
Czechoslovakia (% GDP)			−0.6	0.5	0.6	−0.7	—			
Russia (% GDP)					−9.6	−9.0[b]	−8.0	−9.4	−3.0	−3.3

	MEMO: GDP (Yugoslavia, GSP; USSR, GNP; Russia, GNP (91), GDP (92–6))										
	1985	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Yugoslavia (bn new Ds)	1.1	4.9	14.9	221.9	944.3[c]	—					
USSR (bn Rs)				943	1000	1892.4	—				
Czechoslovakia (bn Kcs)				758.7	811.3	977.8	1,057	—			
Russia (trn Rs)						1.13	18.1	162.3	630.0	1,630	2,256

Sources (Budget Balance): Czechoslovakia: *Statistická Rocenka Ceské Republiky 1993* (Prague: Cesky Statisticky Urad, 1993, 119), *Stastistická Rocenka Ceské a Slovenské Federativni Republiky 1991* (Prague: Federalni Statisticky Urad, 1991, 151). USSR: IMF, *The Economy of the Former* USSR in 1991 (Washington, DC: IMF, April 1992, 67–68). Yugoslavia: balance from OECD (1990, 62 for 87–89); for 1990, calculated from Mihaljek (1993). Russia: 1991: M. I. Khodorovich, "Problemy Fiskalnogo Federalizma v Rossiiskoi Federatsii," *Finansy* (1992, 12, 12). 1992–94: Le Houerou (1995, table 1.1); 1995– 96: *Russian Economic Trends* (1997, 3, 12).

[a]If stabilization fund and pension fund deficits, deposit compensation and debt writeoffs are included, broader central budget deficit came to 16.8% (calculated from IMF, *The Economy of the Former USSR in 1991* (Washington, DC: IMF, April 1992, 67–68).) The actual budget deficit may have been even higher (see Bahry 1991, 247).

[b]If deficit of off-budget funds included, federal deficit in 1992 was actually about 20 percent.

[c]GMP in 1990. GSP was not available, but GMP as reported by the *Europa World Yearbook* was equal to GSP for each of the four previous years.

tributions dropped from 37 percent of federal revenue in 1985 to 6 percent in 1990.

Comprehensive data are not available to evaluate the overall trend in such transfers during the last years of Soviet rule (I was unable to locate important figures for Russia, Belarus, and Tajikistan). Among the other republics, the absolute value of net transfers to or from the center in the state's final year (1990–91) dropped for some (Estonia, Latvia, Lithuania, Ukraine, Moldova, Georgia, and Kazakhstan) while increasing for others (Armenia, Azerbaijan, Kirghizia, Turkmenistan, and Uzbekistan). Where center-republic flows dropped, this reflected either deliberate attempts of central reformers to devolve self-financing and fiscal responsibility or unilateral refusals of republics to pay net taxes to the center. Where net center-republic transfers increased, this was caused by central policymakers' attempts to alleviate fiscal problems in those regions through greater subsidies. In post-Soviet Russia, however, the volume of direct federal budget transfers to the regional governments *rose* from 1.5 percent of GDP in 1992 to 3.4 percent in 1994. However, the levels later fell again in 1994 through 1996. And in 1992 through 1994, the very large drop in quasi-fiscal transfers such as credit subsidies almost definitely exceeded the increase in budget transfers.

In short, the nature of the fiscal crises in the three failing communist federations varied. But each had a federal government with weak revenue powers by the end, and in at least two of the three cases the level of fiscal flows between center and regions was falling. However, Russia, the one surviving postcommunist federation, *also* had a central government with limited (and falling) revenues by 1996 and falling levels of center-region fiscal flows (in 1994–96). In some ways, the crisis Russia faced in the early 1990s seemed more severe than in the other three cases. The Russian central budget deficit was probably larger than in any of the others at its highest point, and the drop in revenues of the consolidated budget plus off-budget funds in 1992 through 1995 was particularly great. The relative severity of fiscal strains thus does *not* explain why Russia remained intact while the others disintegrated.

TABLE 6.5. Grants from Federation to Czech and Slovak Governments, in Percent of Czechoslovakia GDP

	To Czech Republic	To Slovak Republic
1989	9.9	7.1
1990	4.6	2.9
1991	0	0
1992	0.3	0.2

Source: Statistická Rocenka Ceské Republiky 1993.

TABLE 6.6. Yugoslavia, Financing the Federation

	Total Federal Revenue (mn dinars)	Contributions as % of Total Revenue	Customs Duties as % of Total Revenue	Federal Sales Tax as % of Total Revenue	Nat Bank Credit to Fed, as % of Total Revenue
1982	19.9	40.2	14.1	42.7	41.7
1985	68.6	36.6	21.9	38.5	14.9
1987	300.9	20.7	26.2	51.1	23.9
1988	813.1	15.4	29.5	52.5	10.7
1989	11,376.0	13.8	28.5	54.9	10.3
1990	97,542.0	6.1	35.0	56.3	—

Source: Mihaljek 1993, 190.

Central Fiscal Policy in the Final Years

If the nature of the fiscal crisis in Russia was as serious and its fiscal system as vulnerable as in the other three countries, it makes sense to consider what role particular fiscal policies played in its more successful struggle to survive. Were policies of accommodating the most credible separatists with fiscal concessions attempted anywhere other than in Russia?

In Czechoslovakia, Yugoslavia, and the USSR, the most adamant early demands for greater independence came from, respectively, Slovakia; Slovenia and Croatia; and the Baltic republics, particularly Lithuania. So it is important to examine whether these republics were favored or disfavored by fiscal and financial arrangements in the federation. Most significantly, one needs to assess how the terms of such arrangements were *changing* in the years that preceded the federation's collapse.

Once again, a major caveat is in order. To attempt to identify the "winners" and "losers" from aggregate redistribution in each of these countries is highly problematic. Data are not available to do so in a thorough and exhaustive way. As before, the following estimates must be taken as very rough attempts to judge the magnitudes involved and the directions of change. Nevertheless, a fairly consistent picture seems to emerge.

Czechoslovakia

In Czechoslovakia, published figures suggest federal fiscal transfers to both republics decreased in the early 1990s to around zero (see table 6.5).[10] But the impact on Slovakia might be expected to have been greater since it was more dependent on such transfers to fund republic expenditures. In 1989, federal grants to the Slovak Republic came to 1.43 times the republic's own revenues; such grants to the Czech Republic were equivalent to only 96 percent of own revenues. Real republic budget expenditure fell more sharply in Slovakia during this period than in the Czech Republic (see table 6.7).[11]

Such a reduction in federal grants coincided with an economic crisis that was more severe in the Slovak than in the Czech Republic. While Czech unemployment in 1992 remained only about 2 percent, in Slovakia the rate rose above 10 percent. However, federal government spending priorities appeared in various ways to focus more on Czech than Slovak needs. Unemployment benefits had been made a federal rather than republican responsibility in 1992, in large part because Slovakia was having difficulty financing its large required benefit payout from its budget revenues. But the proportion of total state budget spending going toward social security benefits dropped between 1989 and 1992, at a time when Slovakia's relative need for them was increasing (see table 6.8). (In Slovakia, during the same three-year period, the share of spending on

TABLE 6.7. Republic Budget Expenditure per Capita in Czechoslovakia 1989 and 1992 (includes grants to local government)

	1989 (CSK per Capita)	1992 (CSK per Capita)	Nominal Change 1989–92 (%)	Real Change 1989–92 (%)	1992 Estimated per Capita Spending When Federal Spending Is Included[a] (CSK per Capita)
Czech Republic	15,068	21,288	+41.3	−26.4	32,234
Slovak Republic	17,507	23,360	+33.4	−30.5	32,038

Source: Calculated from *Statistická Rocenka Slovenskej Republiky 1993* (Bratislava: Statisticky Urad Slovenskej Republiky, 1993, 97); *Statistická Rocenka Ceské a Slovenské Federativni Republiky 1991* (Prague: Federalni Statisticky Urad, 1991, 151); *Statistická Rocenka Ceské Republiky 1993* (Prague: Cesky Statisticky Urad, 1993, 119).

[a]Estimates of OECD (from *OECD Economic Surveys: The Czech and Slovak Republics 1994* (OECD 1994, 55).) Note: CPI rose ca. 92 percent between 1989 and 1992.

social services and activities rose from 39.8 to 71.9 percent of total republic spending, and around this time Slovak demonstrators began to call for compensation for the particularly harsh consequences of the transition in their republic [Cox and Frankland 1995, 83].) At the same time, the share of spending on federal administration rose from 2.9 percent of total federal expenditure in 1991 to 3.7 percent in 1992. Since the federal government was in Prague, such spending would have had fewer indirect benefits for Slovaks.

Two other aspects of interrepublic resource flows are harder to assess. Some have argued that in the past distorted administrative prices transferred wealth from one republic to the other (see OECD 1994, 56–57). As prices liberalized in 1991–92, the transfers associated with such distortions might be expected to decrease. The net interrepublic effect of this is unclear. The situation with regard to credit and currency emission is complex. M1 grew more than twice as fast proportionately in the Czech Republic in 1991–92 as in Slovakia, and domestic credit grew faster in the Czech Republic in 1992 (whether growth is measured as a percentage of the previous credit stock, in per capita terms, or

TABLE 6.8. Expenditures of State (Federal + Republic) Budgets on Social Security Benefits, Czechoslovakia

	1985	1989	1990	1991	1992
SSB as % of total state spending	34.6	34.9	32.6	29.9	28.5

Source: Statistická Rocenka Ceské Republiky (1993, 122).

TABLE 6.9. Growth of M1 in Czech and Slovak Republics, 1991–92

	Czech Republic	Slovak Republic
M1, 1991	256.0	113.2
M1, 1992	306.9	124.0
Growth	19.9%	9.5%

Source: Polish, Czech, Slovak, and Hungarian Statistical Agencies, *Statistical Bulletin,* 1994/1 (Budapest, 1994, tables 3.6, 3.7).

as a percentage of total Czechoslovak GDP; see table 6.9 and 6.10). But it is not clear how much of credit increases issued by Czech banks might in fact have gone to Slovak borrowers. Slovak commercial banks received considerably more in refinancing loans from the State Bank of Czechoslovakia (by the end of 1992, 9.3 billion Koruny compared to 7.6 billion Koruny for Czech banks). In part, this was due to a lower demand for such loans on the part of Czech banks, which had an easier time raising finance through deposits.

In summary, there is little evidence that the federal government attempted to increase fiscal or financial redistribution to Slovakia to appease those resentful of the center, and there is some evidence that Slovakia's position even worsened, while the Czech Republic's improved. Fiscal reforms of the early 1990s reduced Slovakia's fiscal dependence on the center, while simultaneously reducing the center's ability to adjust fiscal flows to alleviate political crises. At the center, not only was the ability to intervene reduced; so was the will to do so. While Slovakia in general suffered greater pain and uncertainty associated with liberalizing reforms, the central state was committed to reducing its redistributive interventions that might offset such temporary costs. The federal finance minister, Václav Klaus, refused on principle to make exceptions and soften the impact of liberalization. When this alienated the Slovak leader-

TABLE 6.10. Domestic Credit Growth in Czech and Slovak Republics, 1991–92

	Czech Republic			Slovak Republic		
	bn Kcs	as % of CSFR GDP	bn Kcs per cap	bn Kcs	as % of CSFR GDP	bn Kcs per cap
1991 outstanding credit, end of period	495.4	50.6	48.0	207.1	21.2	39.1
1992 outstanding credit, end of period	578.6	54.8	56.2	236.0	22.3	44.5
Increase 1991–92	+17.2%	+8.3%	+8.2 bn Kcs	+14.0%	+5.2%	+5.4 bn Kcs

Source: Polish, Czech, Slovak and Hungarian Statistical Agencies, *Statistical Bulletin*, 1994/1 (Budapest, 1994, table 3.8).

ship, "Klaus argued that if the Slovaks could not accept the sacrifices needed for the establishment of a capitalist market, they should be encouraged to quit the union" (Cox and Frankland 1995, 84).[12]

It is easy to see how this could predispose Slovakia's new electoral politicians to favor strategies of populist nationalism and of mobilizing Slovak anticenter resentment rather than strategies of attempting to buy local support by channeling (reduced) central largesse. Such changes at the center also helped create an atmosphere in which Valdimir Meciar's type of appeal—attributing the economic hardships of Slovaks to the "Prague intellectual ghetto" and calling for negotiated secession—could be electorally powerful (Cox and Frankland 1995, 83). Meciar's victory in the June 1992 elections led directly to separation, even though a majority of Slovaks consistently said in polls that this was not what they wanted. As recently as April 1992, only 17 percent had said that they supported outright independence, while the majority favored a looser relationship within the federation (Cox and Frankland 1995, 84).

Yugoslavia

By the early 1970s, Yugoslavia had become a particularly decentralized federation, held together largely by the party (the League of Communists of Yugoslavia). Even the military was highly decentralized, with the central Yugoslav National Army complemented by developed militias in the republics, equipped with arms stores and trained in mounting defensive guerrilla operations (Woodward 1995, 26–27). Interrepublican fiscal and financial relations had been growing more and more contentious in the 1980s, as income disparities between parts of the federation widened. An attempt to recentralize economic management and control over foreign exchange in order to meet conditions for a three-year IMF standby loan in the mid-1980s aroused Slovenian animosity.

The growing economic antagonism between Slovenia and the federal government had particularly serious implications because stability in Yugoslavia traditionally depended on peaceful relations between Serbia and Slovenia.

> Although outsiders wishing to emphasize the historical character of contemporary Yugoslav politics insist on a long-standing Serb-Croat conflict, the far more important relationship in Yugoslavia was between Slovenia and Serbia. Political alliances between Slovenia and Serbia had been essential to stability in the first Yugoslavia, and it was generally believed that Slovenia acted as a brake on autonomist forces in Croatia (which periodically appeared, most recently in 1967–71) in the interests of political stability in the second Yugoslavia. The absence of confrontation between Slovenia and Serbia was far more crucial than the presence of conflict between Serbia and Croatia. (Woodward 1995, 63)

During the last years of its existence, fiscal and financial resources were redistributed among Yugoslavia's republics and autonomous provinces by several mechanisms (Mihaljek 1993; Kraft and Vodopivec 1992; Kraft 1992; Dubravcic 1993). Kraft and Vodopivec analyzed the size of such flows for data from 1986 (see table 6.11). Among channels of redistribution, the main ones included formal taxes and formal subsidies, the extension of credits at negative real interest rates or without the expectation of repayment, grants from investment funds, gains and losses on monetary assets due to high inflation, and implicit taxation through price regulation. They found that in 1986 manufacturing enterprises paid on average 14 percent of net value added in taxes, received 1 percent in formal subsidies, but received 44 percent in net "gains on money" as the value of their debt was eroded by inflation. When all the channels are added up and expressed in per capita terms, they find that Slovenia was by far the largest loser from redistribution, and Montenegro and Kosovo the biggest winners. Croatia and Serbia both came out about even.

Did Slovenia's position improve in the late 1980s? I know of no comprehensive analysis, but it is possible to assess change in many of the streams. The balance of federal tax revenue shifted increasingly from republic contributions to sales tax and customs duties during these years, but it is not clear that this would have had either a positive or a negative impact on Slovenia.[13] One overt channel of redistribution of investment finance from the developed to less developed republics was the Federal Development Fund. Between 1984 and 1989, contributions to the Fund dropped sharply. But Slovenia's proportionate share in financing the Fund increased from 15.8 percent to 23.8 percent (see table 6.12). Eventually, in the summer of 1990, Slovenia withdrew its support from the Fund in protest.

Probably the most significant redistributive flow in the late 1980s, however, consisted of concessionary loans from the central bank. The institutional structure of the National Bank of Yugoslavia paralleled that of the federal government. Each of the eight governors of the central banks of the republics and autonomous provinces were members of the NBY's board, along with the NBY's governor, who was selected by the Federal Assembly (Cvikl, Kraft, and Vodopivec 1993, 306; OECD 1990, 44). Among the Yugoslav republics, however, there was a sharp difference of interest over monetary policy. The less-developed republics and provinces and Serbia favored expansionary credit policy and had a majority, while Slovenia and Croatia favored tighter controls. Decisionmaking on the NBY's board shifted from a unanimity rule to a majority rule in the 1980s, leaving Slovenia and Croatia less and less able to affect central monetary policy. Big increases in cheap credit in the late 1980s resulted in hyperinflation.

Concessionary loans issued by the NBY went largely to support agriculture and exports. However, despite Slovenia's and Croatia's leading roles as ex-

TABLE 6.11. Estimated Interrepublican Redistribution in Yugoslavia, 1986 (All figures represent percent of Yugoslav GSP except for last column, which represents percent of Yugoslav GSP per 10 mn residents.)

	(1) Disbursements from the Federal Fund[a]	(2) Net Subsidies Inc. Gains/ Losses on Money	(3) Estimated Loss Due to Admin. Pricing		Total Transfers (1 + 2 + 3)	Total Transfers per 10 Million Residents (%Yugoslav GSP per 10 Million Residents)
			p1	p2		
Bosnia	0.4	2.3	−0.5	−0.3	2.2 to 2.4	4.9 to 5.4
Montenegro	0.1	0.7	−0.2	−0.1	.6 to .7	9.4 to 11.0
Macedonia	0.2	0.8	−0.6	−0.4	.4 to .6	1.9 to 2.8
Kosovo	0.6	1.2	−0.3	−0.2	1.5 to 1.6	7.7 to 8.3
Slovenia		−0.9	−0.9	−0.3	−1.8 to −1.2	−9.2 to −6.2
Croatia		1.1	−1.3	−0.5	−.2 to .6	−0.4 to +1.3
Serbia (incl. Vojv.)		1.2	−1.6	−1.7	−.4 to −.5	−0.5 to −0.6
Yugoslav Total	1.2	6.8	−5.4	−2.4	2.6 to 5.6	1.1 to 2.4

Memo: republic GSP as	Bos	Mn	Ma	Ko	Slov	Cro	Serb	S+V
% of Yugoslav GSP, 1986	13.5	2.0	5.7	2.3	18.1	24.7	23.4	33.7

Source: Kraft (1992); Kraft and Vodopivec (1992); Yugoslav Federal Statistical Agency, *Statisticki Godisnjak Jugoslavije 1988* (Belgrade: 1988, 469); Yugoslav Federal Statistical Agency, *Statisticki Godisnjak Jugoslavije, 1990* (Belgrade: 1990, 496).

Note: p1 and p2 represent two different assumptions about the degree of price distortion.

[a]Federal Fund for the Crediting of the Development of the Less-Developed Regions.

TABLE 6.12. Operations of the Yugoslav Federal Development Fund in the Late 1980s

	1984	1986	1988	1989
Total Contributions as % of Yugoslav GDP (disbursements roughly similar)	1.3	1.2	1.1	0.3
Slovenia's Contributions as % of Yugoslav GDP	0.20	0.21	0.23	0.07
Slovenia's Contributions as % of Total	15.8	18.0	20.1	23.8

Source: Yugoslav Federal Statistical Agency, *Statisticki Godisnjak Jugoslavije 1990* (Belgrade: 1990, 496).

porters, they got far smaller shares of these central loans in the late 1980s than their share in GNP (see table 6.13). Serbia, which under Milosevic tightened its political control over Kosovo, Vojvodina, and Montenegro, was able to benefit much more.

The result was an inflationary monetary system in which Slovenia did not even receive its share of inflationary credits, and in which it was asked to pay an increasing share of investment funding to finance development of the less developed regions (a policy that had already been attempted for decades with meager success). Thus, far from appeasing Slovenia with more generous fiscal and financial policy, the center appeared to be doing the opposite.

During 1990–91, Serbia's increasingly open ability to exploit the federal government for its own purposes combined with a central economic policy of IMF-inspired austerity to exacerbate relations with Slovenia still further. Slovenia had supported the federal stabilization program initially. But it turned against it in the summer of 1990, "when the federal government started an incompre-

TABLE 6.13. Access to Concessionary Loans and Money Creation of Three Yugoslav Republics, 1987

	Croatia	Slovenia	Serbia
% of increase in concessionary loans for agriculture	23.6	6.1	57.0
% of increase in concessionary loans for exports	33.5	17.9	29.0
Share in total money creation	19.7	7.5	38.8
Share in GNP	25.3	16.8	37.3

Source: Dubravcic (1993, 266).

hensible series of exceptions (corrections to the exchange rate) and measures (pay rises for federal administration, selective loans to agriculture)" apparently to benefit Serbia (Mencinger 1993). Serbia had already in March 1989 introduced economic sanctions against Slovenia, and in his inaugural speech after his reelection in December 1989, Milosevic reiterated that the break in economic relations with Slovenia would last until "the powers of conservatism and violence" were removed from the republic (Necak 1993, 182). In late 1990, Serbia failed to transfer sales tax to the federal budget and imposed special tariffs on Slovenian and Croatian products. Around the same time, the Serbian National Bank exceeded its credit expansion limits set by the central bank.

A competition erupted between the different republics to withhold tax revenue and to exceed their credit limits. Slovenia began withholding payments to the federal budget and subsidizing exports through issue of Slovenian government bonds, and it announced it would reduce its contribution to the army in 1991 from 15 to 3 billion dinars (Mencinger 1993, 84; Ramet 1992, 45–46). As a result of such steps, the federal government by December 1990 was operating "at a level 15 percent below its basic budgetary needs" and had to lay off 2,700 central officials (Ramet 1992, 45–46). In February 1991, the Federal Executive was forced to take out a loan from the central bank to finance the army. In turn, the center's inability to meet its commitments to the republics set off additional revolts. In March 1991, Bosnia threatened to cease all payments to the central budget unless the federation settled its debt to the republic within a week. Montenegro and Macedonia also complained of unmet central commitments. The political impact of such developments was felt in December 1990, when 88 percent of Slovenian voters in a plebiscite voted for independence (Necak 1993, 184).

Thus, in Yugoslavia in the late 1980s and early 1990s, a weak federal government starting from a low fiscal base and attempting to impose an anti-inflationary fiscal policy, while controlled more and more tightly by Serbia, increasingly ignored the demands of republics where threats of secession were most credible. In doing so, it undercut the central bargains of Yugoslav federal politics. Federal economic policymakers failed to recognize and accommodate the "socially polarizing and politically disintegrating consequences" of the IMF program (Woodward 1995, 383). Monetary expansion by the NBY, rather than being used to redistribute income to the separatist regions, came largely at the expense of Slovenia and Croatia, which received small shares of cheap central credits but suffered the losses of resulting inflation. Again, the situation stands in sharp contrast to that of Russia.

The USSR

The Soviet case shows interesting similarities to the Yugoslav pattern of events. In the late 1980s, central fiscal policy appears to have increasingly redistributed income *away* from the richest and most Europeanized republics—the most plausible separatists—to the less developed regions of Central Asia and Azerbaijan. Between 1986 and 1989, net transfers from each of the Baltic republics to the center increased (by 7 percent for Estonia, by 25 percent for Latvia, and by 81 percent for Lithuania).[14] Meanwhile, net transfers to Azerbaijan rose between 1987 and 1989 by 58 percent; those to Uzbekistan rose by 53 percent; and those to Kazakhstan by 121 percent (see table 6.14).

These were, of course, the years of early nationalist mobilization in the Baltic states, a process that set the pattern for other more quiescent regions to follow. Gorbachev, in his memoirs, links the growth of nationalist opinion in the Baltic republics to perceptions of economic exploitation. While the history of Soviet invasion provided the focus for grievances, "the main motive, finding broad response even among part of the nonnative population, was the conviction that the Baltics were being 'cleaned out' by the Union and in freedom would live much better" (Gorbachev 1995, vol. 1, 511). He blamed nationalist activists for spreading this—to his mind, erroneous—idea. "If they assure people day in, day out from the television screen that, once separated, they will live several times better, after a certain time this becomes the *idée fixe* of the entire population" (vol. 2, 498). Not believing such claims to be true, Gorbachev showed little inclination to indulge them.

TABLE 6.14. Net Budget Transfers from the Union (rubles per capita)

	1986	1987	1988	1989	1990	1991
Estonia	165	147	126	153	165	0
Latvia	−323	−414	−390	−405	189	0
Lithuania	−141	−142	−141	−254	−140	0
Russia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Belarus	n.a.	n.a.	n.a.	n.a.	150	n.a.
Ukraine	n.a.	n.a.	n.a.	−196	−155	−140
Moldova	79	60	12	67	93	−49
Georgia	n.a.	n.a.	n.a.	52	139	0
Armenia	n.a.	n.a.	n.a.	692	187	206
Azerbaijan	n.a.	40	17	64	91	518
Kazakhstan	n.a.	113	195	250	307	253
Kyrgyzstan	n.a.	92	146	127	214	453
Tajikistan	n.a.	n.a.	n.a.	n.a.	n.a.	499
Turkmenia	n.a.	n.a.	n.a.	142	207	400
Uzbekistan	n.a.	101	122	154	335	638

Source: IMF *Economic Reviews* (Washington, DC: IMF). Armenia, Belarus, Estonia, Ukraine: April 1992; Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan: May 1992; Lithuania: April 1992 and 1993, Kazakhstan: also Shome 1993, 310.

He did offer the Baltic republics a major concession in November 1989, when the center passed a law that gave them the right to form their own budgets and control their own banking systems. They were also assigned advantageous rates of tax retention, and Estonia got the right to establish a "one-channel" revenue system (Khodorovich 1991, 8; Bahry 1991, 238). However, the new policy did not last long enough to be implemented. In March 1990 the newly elected Lithuanian parliament voted to secede. Moscow responded with a combination of military and economic pressure. Troops were dispatched to occupy Communist Party buildings in Vilnius and round up Lithuanian army conscripts who had deserted from the Soviet Army. In a speech around this time, Gorbachev referred to Lithuania as "the sea frontiers to which Russia has marched for centuries."[15] Far from appeasing the separatists economically, the center imposed an embargo and blockade. The blockade, which lasted until the end of June, caused gasoline rationing and shortages of hot water and heat. Though the embargo was formally suspended in June, supplies of gas, coal, and other goods to Lithuania and the other Baltic republics were often interrupted during the rest of the year (Diuk and Karatnycky 1993, 133–36).

Such interruptions of the established order of interrepublican deliveries had profound implications for the Baltic economies. Probably the most significant mechanism of interrepublican redistribution in the late Soviet era was the system of administrative pricing, which resulted in trade of products and raw materials between republics at rates far below or above world market prices. The greatest losers from internal Soviet trade were producers of fuels and minerals, the greatest beneficiaries exporters of overpriced manufactured goods. The gains and losses from such pricing have been estimated by Orlowski (1993).[16] They are shown in table 6.15. As can be seen, the Baltic republics received large net implicit transfers due to their purchases of oil and gas at a fraction of world prices. Latvia, Estonia, and Lithuania received implicit subsidies through such trade estimated at 10, 12, and 17 percent of republic GDP respectively even in 1990, the year of the embargo. Sharp cuts in such implicit transfers, and the economic dislocation they caused, would have reduced the opportunities for moderates in the republican leadership to secure public support through distribution of material benefits and would have increased the potential appeal of nationalist, anti-Moscow mobilizational strategies. Such a view coincides with the empirical analysis of one scholar, who found that the level of support in different republics for preserving the integrity of the USSR in the referendum of March 1991 was positively related to the level of implicit subsidies received by that republic via administrative pricing (Austin 1996).

In his memoirs, Gorbachev sees things differently. In his view, central economic pressure was in late 1990 fostering a softening of the Baltic position, which would have continued had Russia not joined the movement for sovereignty. Yet he also notes how in January 1991 economic discontent actually produced demonstrations in favor of presidential rule in Lithuania, which Landsbergis was able to exploit. "The struggle shifted from a constitutional framework to a framework of open confrontation" (1995, vol. 2, 505). How central economic pressures could simultaneously induce moderation and create incentives for radicalization of the nationalist movement is left intriguingly unexplained.[17]

As in the Yugoslav case, a weak center appeared to be reducing redistributive benefits to—or placing a greater part of the burden on—the richer, northern republics that had the greatest hope of integration into Europe. This played into an atmosphere in which when the first competitive elections were held in these regions, separatist nationalists won a strong mandate. Declarations of independence followed. These were punished by the center with military pressures and economic sanctions, which actually accelerated the republics' drive toward economic autonomy and European reintegration. The significant difference from the Yugoslav scenario appears to have been that in the Soviet case the largest republic disagreed with the center about the appropriate response to the separatist threat. Had Yeltsin turned out to be a Russian Milosevic, the results might have been quite different.

The Soviet budget discussions for 1991, in which the Baltic republics did not participate, led to agreement on a sharp devolution of budgetary power to

TABLE 6.15. Estimated Net Indirect Transfers to Republics as Result of Underpriced Exports/Imports of Oil and Gas, and Overpriced Exports/Imports of Non–Oil-and-Gas Goods, 1990

	Transfer as Percent of 1990 GDP
Armenia	9.2
Azerbaijan	10.1
Belarus	8.9
Estonia	12.1
Georgia	16.0
Kazakhstan	0.5
Kirghizia	2.7
Latvia	10.4
Lithuania	17.1
Moldova	24.1
Russia	−3.7
Tajikistan	6.1
Turkmenia	−10.8
Ukraine	3.6
Uzbekistan	1.3

Source: Orlowski 1993, 1006.

the republics. The republics increased their share of revenues by nearly one-third. In return, they agreed to provide the center with an additional 42 billion rubles in contributions to fund central programs (Khodorovich 1991). Almost none of these contributions materialized. According to the finance minister, as of the middle of the year, besides the Baltics, Uzbekistan and Kazakhstan had not paid anything; Ukraine, Georgia, and Moldova had not paid their agreed contributions; and Russia had not remitted its agreed share of the profit tax (Orlov 1991). While the center tried to continue the large subsidies to the Central Asian republics and Azerbaijan—and in some cases to expand them sharply[18]—the subsidizing republics increasingly refused to provide the finance and even refused to compensate other republics for their gains from the price reforms of April 1991 (Orlov 1991).

Conclusion

The fiscal crisis that Russia faced in the early 1990s was in most ways at least as severe as those that accompanied the disintegration of the other three reforming communist federal states—Czechoslovakia, Yugoslavia, and the Soviet Union. All four experienced a marked decentralization of tax revenue and spending during the previous decades or years. All four had relatively meager federal budget revenues at the end—in each case, below 13 percent of GDP. Each had a system in which some taxes were shared between different levels, often at rates determined by ongoing bargaining, and each suffered from threatened or actual tax revolts by discontented members.

Russia, however, managed to contain the impact of such revolts, which at times seemed to challenge the state's continued integrity. It did so largely through a policy of central fiscal appeasement of most of the more separatist regions. Against the advice of most economists and politicians, Yeltsin generally sought to accommodate his loudest regional opponents, while firing disobedient regional officials when they did not have local support. This prevented bandwagons of protest against Moscow from gathering speed and thus helped to sustain the ability of the center to deter additional acts of insubordination.

This chapter has argued that in none of the other three cases was a similar policy of fiscal appeasement seriously attempted. In all three, not only do intergovernmental transfers seem to have been reduced as a percentage of GDP,[19] but as far as can be made out they were targeted increasingly *away* from the most assertive, would-be separatist members of the federation. The causes of this were different in the different cases. In Czechoslovakia, it resulted mostly from a central commitment to economic liberalization, which affected the more economically vulnerable, heavily industrialized, and unprofitable republic of Slovakia more harshly than its more economically healthy neighbor. In Yugoslavia, it resulted from the increasing control of federal institutions, among them the central bank, by a coalition of members with an interest in expansionary monetary policy and extracting subsidized loans. In the Soviet Union, it resulted in part from the shrinking ability of the center to enforce fiscal agreements, but also from an attempt by the center to discourage separatism through dishing out economic punishment. In each case, this contributed to a political context in which antifederal populist appeals offered ambitious regional politicians the best hope of self-advancement and power consolidation, and in which the leaders of key republics had less and less interest in remaining in the federation.

This, of course, is not to argue that a strategy of central fiscal appeasement if tried would have been sufficient to preserve any of these failed federations. No mechanism of integration is proof against all centrifugal pressures. Fiscal appeasement can only complement and conserve the threat and use of force when the historically conditioned hostility of regional publics toward central political leaders is not excessive. Not all supporters of nationalist goals can be bought off with a combination of threats and concessions. The contribution of the argument in this book is to show that concessions can at times work in ways that are quite counterintuitive and that concessions should often be made to the most vehement protesters, not to those seemingly easiest to buy off.

The use of force is extremely expensive. Whether a regime survives may depend on how cost-effectively it can conserve its deterrent. In the Russian case, a feedback of fiscal redistribution and political opinion made it possible to substitute appeasement at times for force, without encouraging others or promoting escalating spirals of demands. Had force alone been tried, it would probably have accelerated disintegration by reducing the credibility of the deterrent. Had the invasion of Chechnya come at a moment of high mobilization of all the ethnic republics, the consequences would have been much harder to localize.

Some have argued that the collapse of the Soviet Union was actually brought about by a failure of will at the center and that "only repression could have succeeded" (Laqueur 1994, 161). What such arguments underestimate is how limited the repressive resources of even the Soviet state were by 1991. Too great a reliance on threats of force at a time of general anticenter mobilization leads to a collapse in the credibility of the threat, as coercive bodies show themselves reluctant or poorly equipped to act in several arenas at once, while the protesters expand into multiple arenas. Sometimes, in the politics of fragile, divided protodemocracies, appeasement is simply more effective.