Analysis of the data in this book shows that, in contrast to civil society theory, social forces can induce shifts in state–society relations and political change from within the political regime through proactive co-operation—rather than antagonistic confrontation—with the state, or by intensifying their embeddedness in—rather than increasing independence from—the state. The rising status of Chinese local legislatures is a significant step toward a major political reform, and an analysis of the causes and mechanisms of legislative development can provide deeper insights into this political change.

It is to be expected that, in the future, power from below—deputies and the public—will increasingly be the primary force in legislative development, and that Chinese legislatures will thereby be more representative or liberalised than they are now. For further legislative development in China, readjusting the relations between the CCP and legislatures will thus become a central problem.

Apart from revealing interesting data on the functioning of local people’s congresses, this book critically discusses the limitations of the current methodologies of research in the field. This gives this well researched and readable book an extra theoretical dimension, thus making it a work of critical reflection that will also benefit research in regions other than China.

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SCOTT GEHLBACH’S WELL WRITTEN BOOK IS AN IMPORTANT contribution both to positive political economy and to the study of post-communist transition. It addresses three sets of questions. First, it examines how and why tax systems differ across post-communist countries. Gehlbach shows that there is a great contrast between Central and Eastern Europe, including the Baltic states, and the Commonwealth of Independent States (CIS). The former group of countries developed a modern tax system, where income taxes are the most important source of budget revenue. By contrast, the CIS countries have disproportionately drawn on sources of revenue familiar from the Soviet period, such as corporate and sales taxes. Gehlbach shows that these differences can be explained by a range of initial conditions, such as distance from the West, inherited industrial structure and level of development.

Secondly, by using a combination of formal modelling and statistical analysis, Gehlbach examines the importance of these differences for business representation and collective goods provision. He shows that conventional political economy analysis in the spirit of Mancur Olson is incomplete, in that it assumes that interest group characteristics are the primary determinants of business representation and state support. Instead Gehlbach shows that taxability—the government’s ability to extract taxes from a sector—can also be a key determinant of the amount of support, in terms of public goods, which a sector receives. This is particularly true when tax systems are relatively underdeveloped and the state’s ability to collect revenue is limited, as in the CIS countries. The formal model spells out the logic and derives precise predictions which Gehlbach tests and confirms using statistical analysis. The introductory chapter illustrates this logic by means of a detailed discussion of the regional authorities’ support of the local vodka industry in the Pskov oblast’.

Thirdly, Gehlbach examines the consequences of these differences for economic performance, notably the development of new small and medium-sized enterprises (SMEs), which are often viewed as the key contributors to growth in the post-communist period. Gehlbach shows that the limited taxability of such companies—the relative ease with which they can avoid paying
taxes—has reduced the state’s willingness to provide support for them in the form of collective goods in the CIS. This in turn has stifled their development in these transition countries, whereas this sector has blossomed and contributed to rapid growth in Central and Eastern Europe.

Gehlbach’s book may well be the most sophisticated attempt to apply positive political economy to the study of post-communist transition, and it is an important complement to a range of studies drawing on different methodologies. The formal modelling is elegant and compelling, and Gehlbach draws on it to develop a crisp, bold and interesting argument. The logic of taxability provides a novel interpretation of government policy in revenue-constrained environments. This aspect of the book will be of great interest to political economists working not just on the post-communist countries, but on many developing countries where tax systems are underdeveloped. It also provides a new and interesting perspective on the stark contrast between economic policies and performance in the CIS and Central and Eastern Europe.

While the overarching argument is compelling, a few additions would have strengthened the analysis. An alternative explanation for the sluggishness of SME growth in the CIS would also have warranted exploration: perhaps it is not just harder to tax SMEs, but also easier to harass them. Direct forms of state predation or merely bureaucratic overload are likely to impose high fixed costs, which only big companies may be able to afford. If this alternative explanation is true, then it may not be the lack of positive inducements, but rather the abundance of negative inducements that hampers the development of SMEs. While some negative factors, such as extortion, probably emanate from private actors and could be addressed by better collective goods provision, it would have been interesting to reflect more on these companies’ vulnerability to state predation. Future research—both qualitative and quantitative—which examines the development of small and medium-sized enterprises in more detail, for example by means of surveys and in-depth case studies, may be able to discriminate between these explanations.

More generally, political and other social scientists who are familiar with the literature on post-communist area studies may perhaps deplore the paucity of qualitative material or examples beyond the vodka industry in Pskov. It should be noted that the book makes a number of important contributions to a range of issues which have thus far received limited attention, and adding a range of new material might well go beyond the scope of a single book. However, further studies which test the logic of Gehlbach’s argument by surveying the actual constraints perceived by firms or which examine policy making in more detail would be valuable supplementary tests of these causal mechanisms. This would be a particularly valuable complement to the analysis of the nature of tax systems in Chapter Two, where the role of geography and the role of structural and economic legacies are shown to be the key determinants of tax systems. A micro-level analysis of the key actors involved in tax reform and of the role of state institutions could elucidate the sources of path dependence and the limits to reform, and it might shed further light on policy makers’ incentives to target particular sectors for revenue extraction and public goods provision.

These observations should not detract from the fact that Scott Gehlbach’s book is a major contribution to the literature on post-communist transition and an innovative application of formal political theory which is likely to stimulate a wealth of future research.

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*Magnus Feldmann © 2010*  


**This book documents the path of China’s move from a centrally planned economy to a market economy. In this process, Chen seeks to consider a number of questions pertinent to**