The Roots of State Failure

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Abstract

My research addresses the concept of state failure, which has become highly topical in connection with the Arab Spring, ISIS, etc. Many papers have studied examples of state failure and suggested recommendations for overcoming it. Still, the subject itself lacks a coherent conceptual framework.

I identify different types of state failure. "Institutional failure" is the collapse of a state, i.e. a situation where governmental institutions cease to exist. The second type is "functional failure". The question regarding a state's functions highlights the multifaceted nature of the concept of state failure. Since a state is an organization, it has its own shareholders, stakeholders, and third parties. I consider state failure in three different contexts. The first defines failure from the point of view of the organization itself and the elites. The second treats failure from the viewpoint of the population. The third approach considers failure as perceived by experts and international organizations. As there are three different views, a state may be deemed successful according to one view and failed to another. I identify three possible types of functional failure: true, quasi (where the state is considered failed only by one or two of the measures), and alleged (failure identified by experts but not consistent with the opinion of the organization itself and its population).

I am conducting a study of possible roots of state failure. Full autocracies and weak democracies, ethnically diverse countries and states with little experience of statehood are more exposed to the risk of failure. States with resource-dependent economies fail less often, with the exception of diamond producing countries.

Key words: state failure, failed state, state collapse

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1. INTRODUCTION

This paper offers a new approach to measuring state failure. It takes into account expert opinions, as well as that of the population and the state itself. It can help avoiding alleged failure, i.e. a situation where countries which are legitimate for the population and the government are considered failed states because they do not meet the criteria established by experts. To begin with, the concept of failure is divided into functional and institutional failure [Milliken, 2003, pp. 1-2]. Milliken and Krause consider institutional failure as the disappearance of the very institutions of a state, i.e. a collapsed state. This phenomenon is not so common in history as state failure. However, in some cases (e.g. Somalia) a collapsed state may pose a serious threat to the global community, as the dissolution of its institutions is followed by the disappearance of a decision-making agent with which the global community could cooperate to resolve its internal problems that present negative externalities to neighboring countries and even to the entire world, as, for example, in the case of international terrorist bases in the territory of such a state. The lack of a decision-making agent makes it more difficult to solve the problems existing in the area. The process becomes more expensive, as the state ceases to enforce the rules, and the costs of enforcement and security have to be borne by international organizations. The collapse of a state is most often a consequence of its failure and its loss of advantage in violence. However, a 'peaceful' collapse is also possible, as in the case with Czechoslovakia in 1993.

Functional failure means that the state no longer performs its functions. The key point here is how those functions are defined. Bearing in mind that a state is an organization, I can see three different approaches to defining functional state failure. The first treats failure from the standpoint of the organization itself and its shareholders, those being the elites in a limited order and the population in an open access order. The second considers failure from the point of view of the organization's stakeholders, which are the population in a limited access order. Finally, the third approach to measuring failure is an external expert assessment. The global community currently tends use the third, normative, approach to defining state failure. Experts establish their own criteria as to what a state should be and what functions it should perform, and measure countries against those criteria. This approach has its shortcomings, as it tries to universally impose its own uniform concepts of the state, which may differ from the interests of the inhabitants of specific countries. Moreover, the diversity of expert approaches leads to a situation where the legitimacy of one and the same country may be measured differently. Reviewing all of the three aspects of failure enables a more objective measurement of state failure, though it does create new limitations on decision-making for the global community.

In this paper I tested the hypotheses regarding factors leading to state failure. A state bearing the traits of authoritarian governance is exposed to a higher risk of failure. Pure autocracies and weak democracies are more likely to fail. But this is not the case for weak anocracies. The dependency of an economy on resource exports enables the state to remain legitimate in the opinion of the population. However, diamonds increase the risk of failure of the country where they are produced. The population's ethnic diversity has a negative impact on a state, thigher the index of ethnolinguistic fractionalization in a country, the more likely is the state to fail. The lack of the statehood experience is also an important factor in a state's stability: the higher the percentage of years spent under imperial rule, the higher the risk of that state's failure.

2. THE PHENOMENON OF STATE FAILURE

A study of state failure should begin with defining the subject of research. I will use the following as a basic definition of the state:

A state is an organization with comparative advantage in violence extending over a certain geographic area whose boundaries are defined by its internal legitimacy and the recognition of the sovereignty (external legitimacy) of this area by similar organizations. [Kruglova, 2015, p.102]

Here, by **legitimacy** I mean ***the absence of disagreement with actions taken by the state as well as the very fact of its existence.*** It should be noted that the analysis considers separately a state's legitimacy for the majority of the population and for the elites. By ***elites*** I mean ***agents holding the means of coercion representing the ruler's advantage in violence or property rights generating the bulk of his income, and hence possessing the ability to influence the ruler's decisions or to threaten his overturn.*** States in a limited access order [North et al., 2009], which can be characterized by extractive political and economic institutions [Acemoglu, Robinson, 2012], are based on the interests of the elites, which benefit from the extraction. The majority of the population has no access to the decision-making process and their opinion of the legitimacy of the political order does not affect the state to the same degree as that of the elite. The absence of the elite's disagreement with the state's actions and with the very fact of its existence are the cornerstone of stability for a state in a limited access order.

Sovereignty is understood as ***the absence of disagreement with a state's existence by similar organizations, as well as a recognition of the state's right to make binding domestic decisions.*** Although the norms of international law and the 1933 Montevideo Convention state that the political existence of a state is independent from recognition by other state , international recognition is de facto one of the key aspects of statehood in global practice. "Recognition of a new state by an existing state is manifested in the latter's declaring or otherwise demonstrating that it considers the new entity a rightful and sovereign participant in international relations" [Tunkin, 1979, p. 20 quoted by Dzhantaev, 2011, p. 149]. For an organization to be considered a state, there is no need to be universally recognized by all other states. An organization only has to be recognized by its neighboring states or by the regional political or economic leader state, which will significantly reduce its risk of losing local advantage in violence and enable it to perform functions expected by the citizens.

Now I will review the phenomenon of state failure. The term 'failed state', so common in the modern research of states, lacks a generally accepted definition. Every author has made their own contribution to defining the phenomenon by identifying failed states based on their individual expert opinions, with different researchers mentioning the same countries and similar phenomena in most cases. That is, the expert community intuitively considers the same states as failed, though lacking a consensus as to the criteria of a failed state.

From the point of view of terminology, state failure is quite a broad concept, covering various phenomena. In particular, Jennifer Milliken [Milliken, 2003, pp. 1-2] identifies ***functional failure,*** where a state defaults on its duties assigned to it by the citizens (its core functions), and ***institutional failure***, characterized by the disintegration of the very institutions of state administration. I will build upon this definition of different types of failure in my analysis. To simplify the terminology, I will use the term 'collapsed state' for institutional failure and the term 'state failure' for functional failure.

2.1 COLLAPSED STATE

The phenomenon of functional failure is reviewed in detail below. First, I will dwell on institutional failure, i.e. the phenomenon of a collapsed state. There are few historic examples of a full destruction of state administration establishments. Recent years' cases include the USSR, Czechoslovakia, Yugoslavia, Somalia, and Sudan.

The terms 'failure' and 'collapse' are often confused in scientific articles as well as in journalism. For example, with respect to Zimbabwe, Acemoglu and Robinson place the collapse at around 2008 [2012, p. 369]. However, Zimbabwe actually became a failed state when it defaulted on its social contract, while its state organizations remained in place. In most failed states, organizations may survive even if the state does not perform all the functions it is expected to perform [Milliken, 2003, p.5]. The fundamental distinction between a collapsed state and functional failure is that ***a collapse means the disappearance of the very organizations of state administration (its institutions)***: "the phenomenon of state collapse is generally understood as the breakdown or disintegration of centralized political institutions, the system of authority

that underlines them, and the unraveling of the complex relationships between state and society" [Milliken, 2003, p. 106]. A collapse entails the loss of control by political agents over a centralized political order, while state organizations cease to be the centers of power and authority, which are in turn redistributed between various competing parties [Milliken, 2003, p. 108]. A collapsed state is a more operational phenomenon than failure, as it can be easily identified empirically, without having to rely on expert or other assessments.

On one hand, the global community is less interested in this phenomenon as less common than the failed states pervading some parts of the world. On the other hand, this problem can be regarded as much more acute and posing a grave threat to the current world order. The international system represented by certain countries or global organizations is quite used to dealing with failed states and is familiar with ways to influence them, prevent the oppression of their citizens, control their policies, or carry out reforms there. However, all these familiar mechanisms depend on a presumed agent that can be engaged in negotiations, be made subject to sanctions, or be a party to any other form of relationship. These traditional mechanisms have no use in a collapsed state, as there is no subject to which they could be applied [Milliken, 2003, p. 26]. Moreover, due the lack of state institutions, international organizations find it more difficult to resolve local problems in an area, as they lack specific knowledge about it. The disappearance of centralized rules enforcement will most likely lead to a deeper aggravation of the situation for the civilian population of the area in what regards security and the production of public goods. This puts an even heavier burden on the global community in the form of external effects which the country has on the region and the world, as well as in the form of direct costs of maintaining order and producing public goods, if international organizations decide to try resolving the existing problems.

A state may collapse due to various factors, the most common being a situation where a state's institutions lose, by any reason, advantage in violence and are destroyed by competing organizations. For example, according to North, the reasons for the existence of the Roman Empire evaporated as soon as its military strength did, when it could no longer provide protection to the citizens or secure their property rights [North, 1981, p.123]. The collapse of a state usually followed its failure. However, a situation is possible where a state's failure is a rational decision made by the elites seeking to benefit from it. The state collapse in Czechoslovakia happened peacefully, driven by the interests of the elites. The Czechoslovakian experience illustrates not only a peaceful collapse of a state but also the decisive role of elites in a state, which were mentioned in the definition of a state's legitimacy in the beginning of this section. The majority of the population was against the separation: only 37% of Slovaks and 36% of Czechs were going to vote for separation at the referendum [Kamm, 1992]. The parliament also voted against the separation, although the elites did not recognize its decisions as legitimate [Kamm, 1992]. The economic elites of the Czech Republic (the Czech Republic was an economically thriving region) and the political elites of Slovakia (which, politically, was subordinate to the Czech Republic) sought to split the country, which eventually happened in 1993 [Hilde, 1999]. Czechoslovakia's state institutions ceased to exist, the state collapsed, and two independent states emerged in the area: the Czech Republic and Slovakia. The Czechoslovakian experience is a rare example of a planned peaceful collapse, while in most cases this phenomenon has negative causes and catastrophic consequences, as in the case with Somalia. After Siad Barre's government was overthrown in Somalia in 1991, none of the elites succeeded in creating a dominant coalition. The country broke up into separate areas, some of which became unrecognized states (i.e. Somaliland). Others became quasi-states, controlled by warlords.

Although disintegrating empires should be qualified as collapsed states, they present totally unique cases, as there have been few empires in the world and the ramifications of their collapse have been completely different. A collapsed empire matches the definition perfectly, as state institutions disappear from its territory. However, according to Doornbos [Milliken, 2003, p. 45], the key difference is that empires may fall apart into distinct entities, theoretically re-combinable

in different arrangements to create their own states "on the ruins" of the empire. According to Doornbos, this happened to the Great Ottoman Empire, Austria-Hungary, and the Soviet Union. In case of a state, though, a collapse involves a single entity perceived as indivisible by the international law and the territory's population. Accordingly, the emergence of a new state in these conditions is more complicated than in case of a collapsed empire.

What countries can be considered collapsed? As I noted earlier, a collapse is in most cases a phenomenon observed when a state has no more state institutions. In the late 20th century, collapsed states included Czechoslovakia (due to the disappearance of the state's institutions), Yugoslavia, the USSR, Somalia, etc. Early in the new millennium, Sudan collapsed as well.

2.2 FUNCTIONAL STATE FAILURE

This section deals with the functional failure of a state, which means that the state no longer performs its functions. Which leads us to the question, what the functions are that a state must perform and who should define those functions. Answering to this question will allow me to highlight the multifaceted nature of the concept of state failure. Since a state is an organization, it has its own shareholders, stakeholders, and third parties who are external to the organization. Accordingly, the definition of functions to be performed by the state, as well as that of failure as a result of not performing those functions, are possible in three contexts. The first defines failure from the point of view of the organization itself and its shareholders, those being the elites in a limited access state and the population in an open access state[2]. The second treats failure from the viewpoint of its stakeholders, represented by the population in a limited access state. This situation can also be called a predatory state. The third approach considers failure as perceived by third parties, experts and international organizations. As there are three different views on state failure, situations are possible where a state may be legitimate according to one definition and failed according to another.

Figure 1. Types of the State Failure

FAILURE			
FUNCTIONAL			**INSTITUTIONAL**
As perceived by the organization itself and elites	**As perceived by the population**	**Expert assessment of state failure**	**Collapsed state**

<u>Expert assessment of state failure</u>

I will begin my review of the approach to defining state failure with the expert assessment, as this approach currently prevails in the research of state failure. An expert measurement of state failure implies that third parties (experts), guided by their perceptions and experience, identify the criteria which, in their opinion, a legitimate state should meet, and a number of functions it should perform. Due to the aforementioned lack of a uniform approach to defining the criteria of failure, the variety of assessments depends on the number of experts. To be fair, it should be noted that in a vast majority of cases the same countries find themselves defined as failed states by experts, notwithstanding the different criteria. Among the existing indices[3] I will focus on th**e Fragile States Index** (known as Failed States Index until 2013), the most common index assessing failed and weak states. It has been released by the Fund for Peace since 2005 (based on 2004 data). It has the widest country coverage, with 178 countries in the Fragile States Index 2015. The aggregate index of each country is based on 12 macro indicators of social (Demographic Pressure, Refugees and IDPS, Group Grievance, Human Flight and Brain Drain),

[2] This paper deals mainly with limited access states

[3] E.g. Index of State Weakness [Rice, Patrick, 2008]

economic (Uneven Economic Development, Poverty and Economic Decline) and political aspects (State Legitimacy, Public Services, Human Rights and Rule of Law, Security Apparatus, Fractionalized Elites, External Intervention). The Index ranks countries from Very High Alert to Very Sustainable (Intermediate states: very high alert, high alert, alert, high warning, warning, low warning, less stable, more stable, and sustainable). The label 'failed' is not applied to the countries in the index. However, I identify that 'very high alert', 'high alert' and 'alert' mark failed countries or countries with high probability of failure.

Indices released by an international organization may have a strong impact on the investment attractiveness of a country and its position in the global political system. In rare cases, being labeled as failed may make a country subject to the external intervention even against the will of its government or population.

Failure as perceived by the organization itself

The second angle to state failure is the failure to perform the functions and achieve the objectives which an organization has set for itself. In open access states, the organization pursues objectives that present interest for its shareholders, i.e. the population. If those objectives are not achieved through political institutions, the shareholders may replace the managers of the organization (government). Limited access states seem to be more valuable for analysis. The populations of those countries are not the shareholders, which is why the objectives of a state's organization are not necessarily concerned with the benefit of the population. Examples of states that pursued repressive objectives in respect of their populations are abundant in history. In this approach, a predatory and a failed state are the opposing poles of the same continuum of autocratic regimes [e.g. Gilli, Li, 2015]: if a state's objective is to repress the citizens and it is seen as highly repressive, such a state cannot be regarded as failed in this context. For comparison, in terms of population, a predatory state is usually a failed state.

The greatest challenge for positive research is to identify the objectives of a state and estimate the extent to which it performs the functions it has set for itself. In certain cases, criteria include a default, in others, an overturn or tensions between the elites. In my opinion, political stability is the most adequate measure of state failure as perceived by the organization itself.

I should also note the agency problem inherent in this approach to failure, i.e. if we consider elites as shareholders, they become the principal, while the government may be regarded as the agent, and their interests may differ. In this case, if the government depends on the elites for its advantage in violence, deviations of its course of action from the interests of the elites may lead to an overturn. The literature cites several play models of interaction between an executive government (ruler) and the elite in situations where their interests differ [e.g. Gilli, Li, 2015]. When evaluating failure from the viewpoint of the organization, considerations of reliability require a distinction between sustainability as perceived by the elites and sustainability as perceived by the government.

Failure as perceived by the population

The population is regarded as a stakeholder of a state's organization. A situation is often possible where the expectations and interests of the population regarding the functions of the state and the state's perceptions of those functions differ. The population's expectations may be regarded as an incremental social contract serving as the foundation of the state's legitimacy in the eyes of the population. If the interests of the population and the state differ and the population's expectations are not met, the state becomes illegitimate for the population, which corresponds to the condition of a 'predatory state'. This may lead to a risk of revolution in certain circumstances, followed by a risk of becoming a collapsed state.

Many scholars defined a failed state in terms of failure to perform its functions [e.g. Christopher Clapham, Jennifer Milliken and Keith Krause, Martin Doornbos in Milliken, 2003; Nelson Fasfir in Rotberg, 2004; Acemoglu, Robinson, 2012]. This raises the question of what functions a state should perform. There are multiple answers to this question, ranging from

minimalist states providing only basic security to welfare states which guarantee their citizens' wealth and growing standards of living. As Alexandros Yannis correctly noted [Milliken. 2003, p. 64], it is understood to imply a value judgment of what specific standards of political, social and economic performance are to be met by all states. This standardized approach is based on the opinions of the most developed countries regarding the way things should be. Citizens of other countries do not necessarily share this view.

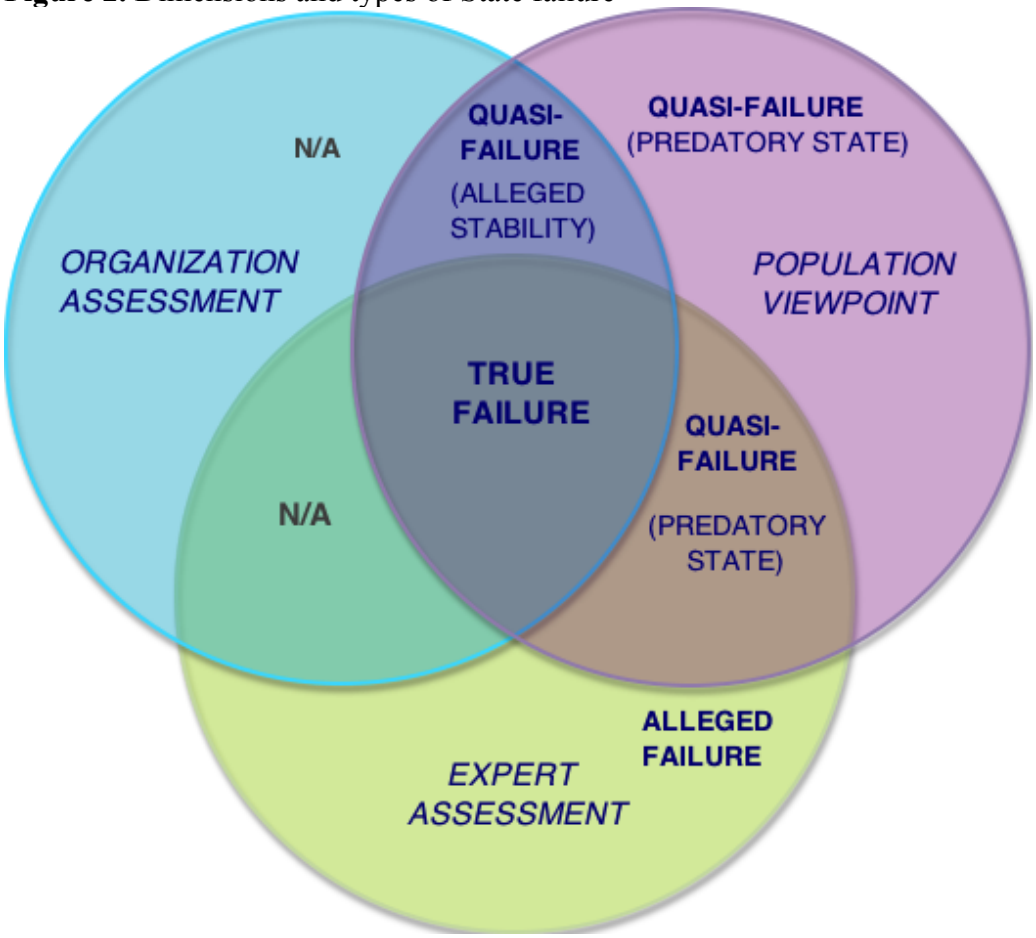
In some states the social contract, which reflects the inhabitants' expectations regarding the functions to be performed by the state, may differ from the contract in developed countries. For example, the key conditions of social contracts in the Russian Federation, which have been unilaterally changed several times over the past 15 years, are summarized by Alexander Auzan, President, *Social Contract* National Projects Institute, as follows: 2000-2004 – "order in exchange for taxes"; 2004-2008 - "stability in exchange for loyalty"; 2008-2014 - "social guarantees in exchange for loyalty"; 2014 until now - "willful austerity in exchange for belonging to a great power" [Babaeva, 2014]. Security is expressly stated in the first contract and implied in others, while still others imply welfare improvement, but not necessarily representation and strong property protection (e.g. the right to own and run a business).

A failed state from the population's point of view is one that does not perform its key functions under the social contract, i.e. those which are the pre-requisites of legitimacy. This approach is less suitable as a subject of research, since identifying functions considered key by the citizens requires either an expert assessment or a massive social survey. However, it illustrates more accurately the actual processes happening in the world than the simpler approach based solely on the performance of, or default on, functions listed by an expert. In this paper, I will use the so-called 'voting with your feet' as an operational measure of state failure where the population considers the state a failed one but cannot influence the decision-making processes due to the domination of extractive institutions. In this case, the only way for the population is to leave the state literally (migration) or figuratively (move to the shadow economy). This approach is based on Bruce Gilley's [2006] idea that legitimacy can be evaluated not only from a moral perspective of citizens but also by acts of consent. "Acts of consent refer to positive actions that express a citizen's recognition of the state's right to hold political authority and an acceptance, at least in general, to be bound to obey the decisions that result" [Gilley, 2006, p. 503]. As examples of indicators of legitimacy, Gilley mentions, inter alia, tax payments and mass emigration. Thus, the idea to measure legitimacy as a reverse of state failure from the population's point of view is clever enough. The main obstacle is that both indicators are difficult to measure and it is not so easy to obtain reliable data.

The analysis of all of the three types of failure is relevant not only for pure theory but also for political decisions made by international organizations. Various combinations of opinions on failure lead to considering three types of state failure. The first is true failure, where the state is failed in the opinion of the population as well as of the organization itself and experts (central segment in Figure 2.). In this case, there is an obvious need to engage international organizations to overcome the existing problems, possibly including a forceful intervention. The second type is quasi-failure, where the state is considered failed only by one (population) or two measures (experts and population, or organization and population (in this case it is alleged stability, because expert assess this state as sustainable or at least not failed). In most cases, it is sustainable in the opinion of the organization itself, i.e. the influence of international organizations is limited by the need to conduct a dialogue with the state. The third is alleged failure, identified by experts but not consistent with the opinion of the organization itself or its population, as in the case with Bangladesh or Syria in 2004 (detailed below).

Thus, I have three types of failure and legitimacy, based on three dimensions.

Figure 2. Dimensions and types of State failure



2.3 COMPARING DIMENSIONS OF STATE FAILURE

In this section I compare the expert assessments of state failure in the Fragile States Index [Fund for Peace, 2007] with my evaluation of failure based on engagement in the shadow economy. I use the data on the shadow economy from Schneider, Buehn and Montenegro [2010]. They estimated the shadow economies of 162 countries over 1999 to 2007 using the MIMIC estimation method. The definition of the shadow economy used in the article is as follows: "all market-based legal production of goods and services that are deliberately concealed from public authorities to avoid payment of income, value added or other taxes; payment of social security contributions; compliance with certain legal labor market standards, such as minimum wages, maximum working hours, safety standards, etc.; and compliance with certain administrative procedures, such as completing statistical questionnaires or administrative forms" [Schneider et al., 2010][4].

I rank in descending order the rate of the shadow economy and set the third quartile as the threshold of failure. I consider all countries with the share of the shadow economy above the third quartile as failed from the population's opinion[5]. Here are the results of comparison between two lists of countries. Only 30% percent of countries on the lists coincide (teal segment "TRUE FAILURE"[6] in the Figure 3.). Data on the shadow economy are missing for 9 countries on the FSI list (grey type in Figure 3). Some countries from one list are just below the threshold in the other. However, some countries in the Fragile States Index are allegedly failed (pink

[4] Data on the shadow economy are given in Appendix 1

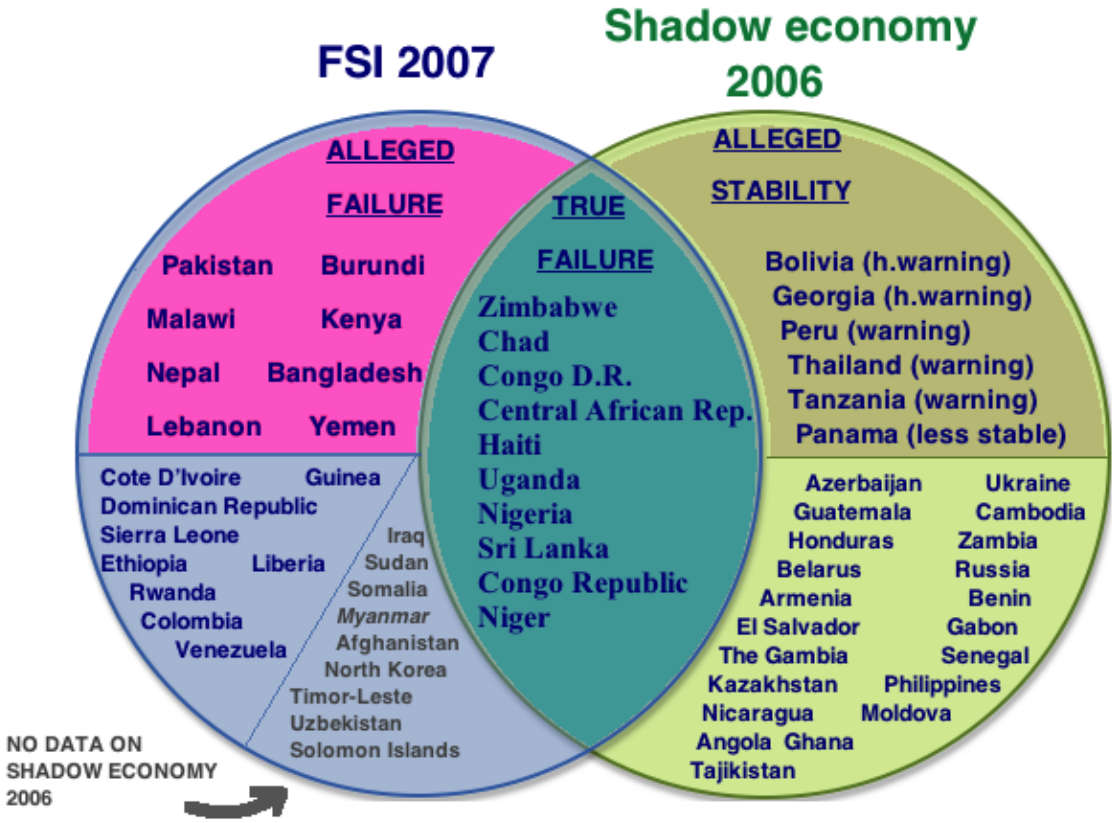
[5] A list of failed states from the populations' point of view is given in Appendix 2

[6] In this part of the paper I compare only two dimensions, so I use "true failure" in a different way comparing as it was discribed above.

segment in Fugure 3.). For instance[7], in 2006: Pakistan and Burundi (39,8%, with a threshold of shadow economy 45,1%), Malawi (39,4%), Kenya (37,7%), Nepal (37,3%), Bangladesh (36,7%), Lebanon (35,4%), and Yemen (28%). Identifying an alleged failure is rather important, as expert opinions and indices produced by international organizations can influence the investment attractiveness of a country and decisions of many members of the global community.

Another important point that I want to highlight in the comparison of two aspects of state failure is that some countries are alleged sustainable: they are failed from the population's point of view, but marked in the FSI as just 'warning' or even 'less stable' countries. Bolivia and Georgia are failed according to the share of the shadow economy in GDP, but marked only as 'high warning' in the FSI. Peru, Thailand and Tanzania are also failed for the population, but marked 'warning' in the FSI in 2006 [Fund for Peace, 2006] and 2007 [Fund for Peace, 2007]. The most interesting case is Panama: while being failed by the share of the shadow economy, it is considered as 'less stable' by the FSI.

Figure 3. State Failure 2006: comparison of FSI 2007 and the index, based on the share of shadow economy



3. ASSUMPTIONS REGARDING FACTORS LEADING TO STATE FAILURE

This paper is not the first one to express assumptions on factors that can lead a state to failure. To one extent or another, all authors dealing with the subject of failed states make assumptions on those factors. Some of them even attempt at making a summary of the assumptions. For example, Doornbos identified 7 factors: high level of rent extraction in

[7] In 2004 alleged failure: Yemen (shadow economy rate is 27,8% of GDP, compared to a threshold value of 43,45%), Bangladesh (35,7%), Dominican Republic (37,4%), Venezuela (32,3%), Bosnia and Herzegovina (34,6%), Kenya (34,9%), Laos (31,8%), Equatorial Guinea (34,9%), and, particularly, Syria (19,5%, first quartile). In 2005, allegedly failed were Pakistan (38,8%, with a critical threshold of 44,3%), Nepal (36,9%), Bangladesh (36%), and Yemen (28,2%).

institutions; conflict between political institutions and socio-cultural traditions of a state; contesting for strategic resources; fighting for power, political and cultural influence, certain society organization; separatism; economic breakdown; inability to provide basic security going beyond the point of no return [Milliken, 2003, pp. 51-52]. Most of the assumptions will be examined further.

In this chapter, I will summarize the experience of state failure research and suggest a long list of assumptions regarding possible factors leading to failure, mostly from the population's point of view. Of course, the list is open-ended and can be extended. As a there is a great variety of institutions, political processes and phenomena, there is no way of guaranteeing that no other causes can lead a state to failure. However, it is the most comprehensive list of assumptions in the area of state failure studies existing so far.

It is important to note that the assumptions provided are not discrete alternatives. On the contrary, they interact with each other, causing a synergistic effect and thus intensifying.

Generally speaking, the cause of a state's failure for the population is the loss of its legitimacy in the eyes of the people as a result of the state's failure to comply with the terms of a social contract. Causes of such loss of legitimacy are described below.

ASSUMPTION 1. EXTRACTIVE INSTITUTIONS[8]

This assumption is based on the approach of North, Wallis and Weingast [2009], which was reconsidered and further developed by Acemoglu and Robinson [2012]. The main point consists in the idea that "as institutions influence behavior and incentives in real life, they forge the success or failure of nations" [Acemoglu, Robinson, 2012, p.43]. In general terms, all economic and political institutions may be divided into inclusive (institutions in an open access order) and extractive (institutions in a limited access society). According to Acemoglu and Robinson [2012, p.80], political institutions determine who holds power in a society and to what ends that power can be used. Extractive institutions have the power distributed inside a limited group of agents, and there are no tools to limit that power. On the other hand, inclusive political institutions provide for control over the use of violence, which is distributed in the society [North at all, 2009], or, in a broader sense, distribution of power between various agent groups, as well as representation, plurality, limitations imposed on the authorities by the society, and public monitoring of compliance with such limitations. Briefly speaking, inclusive political institutions are sufficiently centralized and pluralistic [Acemoglu, Robinson, 2012, p. 81]. As defined by Acemoglu and Robinson [2012, pp. 74-75], economic institutions determine who and to what extent has the right to get involved in economic activities. Thus, inclusive economic institutions allow and encourage participation in economic activities by a great number of people, while extractive institutions do the opposite, i.e. limit access to economic activities. Inclusive economic institutions feature secure property rights, free and secure exchange and contacts, no barriers for entry, and free labor market, all of which are available to the majority of the society's members. Inclusive institutions allow for sustainable growth and the people's prosperity, while extractive institutions restrict opportunities for development, scientific progress and economic growth. Economic and political institutions have a synergistic effect, as institutions of the same type augment each other. Institutions in a limited access society provide no incentives for saving or investing, as the only ownership rights protected in such societies are the rights of the elites. In such cases, enforcement mechanisms bring injustice, as they work to benefit only a few individual groups.

States fail because of extractive institutions that impede economic growth and weaken the people's incentives to save, invest and innovate, as the concept states [Acemoglu, Robinson, 2012, pp.83, 376]. According to Acemoglu and Robinson, it was extractive institutions that led

[8] 'Extractive institutions' is a term used by Acemoglu and Robinson [Acemoglu, Robinson, 2012]. In the concept by North, Weingast and Wallis [North at all. 2009], similar institutions are called institutions in the limited access order (or limited access institutions).

to the failure of Zimbabwe and Sierra Leone and to problems in Angola, Cameroon, Chad, Democratic Republic of the Congo, Haiti, Liberia, Nepal and Sudan, as the countries gave away the power and economic benefits to the state-controlling elites that sought to enrich themselves at the expense of the people, which affected economic growth and standards of living. In addition to the above, political institutions play a significant role, as they serve to determine groups or individuals that will make decisions in respect of economic institutions.

Democracies are more successful than autocracies and dictatorships

The inclusive/extractive character of the dominating institutions of a state reflects the existing political order. If a given state is democratic (in actuality and not just in the constitution), plurality, representation and power distribution among social groups will prevail. Thus, inclusive institutions are characteristic of democratic states, while limited access institutions are characteristic of non-democratic ones.

Rotberg [2004, p. 5] also adheres to the approach that non-democratic countries have a higher risk of failing and claims that "there is a special category of weak state: the seemingly strong one, always an autocracy, which rigidly controls dissent and is secure but at the same time provides very few political goods". Rotberg provides the following examples of such states: Cambodia during the reign of Pol Pot, Iraq during the reign of Saddam Hussein, Iran, North Korea, Belarus, Turkmenistan and Libya. States with democratic institutions, which may be considered as synonymous to inclusive institutions, experience less public discontent, as such institutions allow most of the groups to express their preferences and influence the policy pursued by the state. Inclusive political institutions allow a wide range of social groups voice their expectations to the government and replace it through some formal procedures if it fails to fulfill those expectations. However, it should be noted that a research by Fearon and Laitin [Fearon, Laitin, 2003a, pp. 84-85] showed a similar civil war probability (which can be considered as an extreme case of discontent expressed by social groups) in democratic and non-democratic states, when income-adjusted. Therefore, the issue requires further research.

Hypothese 1: Predominance of extractive institutions (prevalence of non-democratic institutions, i.e. non-democratic political order in general) increases the risk of state failure.

ASSUMPTION 2. A MILITARY RULE

A ruler needs protection from takeover, which results in investing increasing amounts into army. However, as a ruler also has to compete with the members of the ruling elites that possess partial control over the same means of violence that constitute the advantage of the ruler, investing into the army, though aimed at protecting the ruler's regime, actually constitutes a threat. Due to such situations, governments usually establish lifeguard, security and other similar services unassociated with the state's armed forces. History has seen many examples of how members of the ruling elites, rather than opposition forces, overthrew rulers. For example, the forces of Kasa-Vubu (the President) and Mobutu (the Chief of Defense), who became the next dictator, overthrew the government of Lumumba in the Republic of the Congo in 1960. Similarly, Bokassa, the Chief of Defense of the Central African Republic, deposed the President in 1966, the same way the Premier Obote and Army Captain Amin deposed the President of Uganda. Of course, the fact of a military coup d'etat per se does not always lead to state failure, so the correlation between a military rule and failure requires further research.

The way in which the phenomena correlate may be nontrivial, too. A ruler may be aware of the threat a strong army constitutes for the regime. According to Reno [Milliken, 2003, p. 86], in such a situation the ruler would try to create competition between the elite members controlling the armed forces to prevent centralization of command. This kind of policy results in higher security for the ruler in the short term, but also in independent groups with advantage in violence forming in the long term, as it includes a broader distribution of arms in the society, and competing elites seek to find advantages in violence of their own.

The existing empirical data is insufficient to test this assumption as hypothese.

ASSUMPTION 3. THE RESOURCE CURSE

The "resource curse" here means that resource exports influences a state's chances to fail. However, the degree of influence requires further discussion.

On one hand, the rent from selling resources creates additional revenues for the state budget, which can be used to improve the quality of the services rendered by the state and increase the people's wealth, thus reducing the number of discontented citizens and increasing the state's legitimacy in the population's opinion. Norway is a good example of this situation [Holden, 2013]. If the state does not allocate the rent to improve the people's wellbeing for some reason, it can still use it to buy loyalty in some critical cases. For instance, Saudi Arabia spent huge amounts on education and health-care social programs to contain the commotions during the Arab Spring [Moyo, 2012, p. 57]. Alternatively, the rent may be used to fund the enforcement machinery that will detect and liquidate discontented individuals.

On the other hand, the "resource curse" often causes an economic imbalance, which can result in public discontent. Resource-rich countries have fewer reasons to worry about citizen's expectations, as their income does not depend on the taxpayers, as in other states. This undermines the security of the social contract [Moyo, 2012, p. 56]. Thus, such states can lose legitimacy in the eyes of their citizens. In addition, when rent-generating resources exist, many groups find it tempting to attempt at seizing control over them in order to take possession of the rent. As Doornbos [Milliken, 2003, p. 52] puts it, they are "states in which there are deepening conflict over the control of strategic resources – diamonds, oil, timber, etc. – involving rebel groups and private armies, making state institutions irrelevant (Congo, Sierra Leone, Liberia, potentially Nigeria)". In Doornbos's opinion, such disputed resources are the cause of the failure of such states.

According to the results obtained by Collier and Hoeffler [2004], resource exports are associated with the factors leading to civil war in their model. Primary commodity exports have the greatest influence when they make 33% of GDP, increasing the risk of civil war from 1% to 22%. As the share of resource exports in GDP increases or decreases, the influence causing state failure becomes weaker. Such non-linear relation can be explained as follows. At first, the growing share of resources in the exports encourage certain groups to seek exclusive access to the rent, which excludes all the other groups, including current beneficiaries. However, after the peak rent (i.e. 33% of the GDP, in this case) is reached, the state becomes capable of bribing and liquidating the dissidents. Unlike the above study, a research by Fearon and Laitin [2003a] showed no influence of commodity exports on civil war probability based on the available data.

Natural resources as a significant factor in explaining civil wars is a very popular idea [Ross, Gilmore et al., 2005a; Collier and Hoeffler 2004]. The main explanation behind it is that rebel groups can use the resources to finance their activity and increase welfare, like the ISIS uses oil. Resources can be not only the sinews of war, but also the aim of war, as in Sierra Leone.

Hypothese 2: The resource curse: dependency of an economy on recourse exports increases the state's risk of failure.

For further proof, this assumption requires studying situations with various kinds of natural resources: fuel resources, non-fuel resources, diamonds, agricultural products, and lumber. In this paper, I will analyze the influence of oil and diamond production on the probability of a state's failure.

ASSUMPTION 4. HIGH ECONOMIC INEQUALITY

An evident division of a society into the rich few and the poor majority is one of the signs of dominating extractive economic institutions. The ruler makes it impossible for the majority of the population either to receive all of the profit generated by their activities, as it is partially transferred to the elites as rent, or to engage in profitable economic activities in general. Such strong differentiation in a society increases social tension. As there is the super-rich group and the super-poor group, the latter grow discontent with the existing situation. The greater part of

the population, receiving the smaller share of income, may regard the state, which has allowed such injustice, as failed. It stimulates them to attempt at changing existing institutions in such a way as to make themselves the beneficiaries of the rent, instead of the people currently receiving it.

Hypothese 3: The higher the income differentiation, the higher the risk of state failure

ASSUMPTION 5. POPULATION DIVERSITY

Most of the known states in the pre-colonial history were political entities of people of one nation who spoke one language or similar dialects and shared one religion. In particular, many European states were based on the unity principle, and ethnic purges were common in the course of their formation. For example, expulsion of Gypsies from England during the reign of Henry VIII (as well as from many other European states during the same period), expulsion of Muslims and Jews from Spain during the reign of Ferdinand and Isabella, or population exchange between Greece and Turkey in the beginning of the 20th century. These processes resulted in the formation of national European states that are now among the most inclusive, regulated and fair political regimes [Wimmer, 2008, pp. 2-4]. Although common nationality is not the only one of a state's characteristics, it plays one of the key roles in legitimizing the political order in the popular mind, while its absence substantially weakens a state [Cederman et al., 2010; Milliken, 2003]. Naturally, the above process does not apply to empires. However, governments in empires were often based on delegating administrative functions to national levels, which were to be subordinate and report to central authorities. In addition, if I try to trace what happens after such multinational empires collapse, I will most likely see that they break into nation-based entities. According to Clapham, this is how the Austro-Hungarian Empire and the Ottoman Empire, the USSR, Czechoslovakia and Yugoslavia collapsed [Milliken, 2003, p. 41]. Therefore, homogeneous ethnic composition is more natural for states. By 'ethnic' I mean ethnicity as defined by Max Weber, as a subjectively felt sense of belonging based on the belief in shared culture and common ancestry [Weber, [1922] 1985, p. 237, as quoted by Wimmer, 2008, p. 973]. At the same time, various characteristics can serve to indicate common descent: "ethnic groups are defined by ascriptive differences, whether the indicium is color, appearance, language, religion, some other indicator of common origin, or some combination thereof" [Horowitz, 1985, pp. 17-18, as quoted by Sambanis, 2001, p. 261].

The populations of most European countries possess all the features of ethnically homogeneous nations. However, as far as the Third World countries are concerned, the nationality factor was not always taken into account when dividing colonial areas into states, and different ethnic groups found themselves within the same territorial borders. I could make an assumption that diversity of the local population and conflicts arising therefrom increase the risk of failure for such states. Thus, I suppose, a certain tension exists in a state comprising various groups of different ethnicity, having different cultures, languages, religions, etc., which may cause conflicts and lead to state failure (either in the form of its illegitimacy in the eyes of the population majority, or through an armed conflict).

There are many examples of states, where population diversity and related conflicts have taken place. Ethnic conflicts among the Ossetians, the Abkhazians and the Georgians can be one of the reasons of Georgia's failure in the 1990s [Demetriou in Milliken, 2003]. The failure of Tajikistan in 1992-1997 may have to do with conflicts between the Tajik government and the separatist sentiment among the Talibs and the Uzbeks; Cote d'Ivoire was on the brink of failure in the beginning of the 2000s, after two ethnic and religious rebel groups split up the state, which used to be so strong, into three parts [Rotberg, 2004, pp. 16-17]. The division of Sudan into North Sudan (the Republic of Sudan) and South Sudan in 2011 because of the many years of conflict between various religious groups represents the latest example of a state collapse on the grounds of ethnic borders. The failures of the aforementioned countries resulted mainly from civil wars rooted in ethnic, religious, language-based and other conflicts.

Many studies are dedicated to the ethnic reasons of civil wars [e.g. Sambanis, 2001; Fearon, Laitin, 2003a; Collier, Hoeffler, 2004; Cederman, Girardin, 2007]. Results of those studies are controversial. Sambanis showed a strong correlation between ethnic conflicts and ethnic heterogeneity of population (in all respects), thus proving wrong the economic theory of civil wars, analyzing civil wars of all types (ethnic and non-ethnic alike), which claimed no correlation existed between ethnic wars and ethnic issues (based on different languages only) [Sambanis, 2001]. An opposite view is discussed in a well-known work by Fearon and Laitin [2003a], who investigated, among others, the assumptions that a higher civil war risk may be associated with ethnic and religious diversity as well as with the presence of an ethnic majority and a significant population of ethnic minorities in a state (ethnic or religious polarization). Economic studies have failed to prove the assumption that high ethnic or religious diversity per se can make a state prone to civil war. The effects of ethnic and religious disunity were estimated as insignificant. Similar results were demonstrated using alternative indicators: the percentage of the largest group in the population and the log of the number of languages spoken by at least 1% of the population.

One cannot help but notice that states with multi-ethnic population regularly face related issues. This is true for Spain, for instance, where an acute conflict with the Basque and clashes with Catalonia exist. The conflict between the Northern Ireland and the UK has repeatedly resulted in violence, i.e. acts of terror by the Irish Republican Army. Still, there are some exceptions. Specifically, the Republic of Botswana boasts peaceful coexistence of various ethnic groups in its population, for many of which the official language of the country, Setswana, is not native. Despite the fact, according to Acemoglu and Robinson [2012, pp. 412-414], no ethnic conflicts occur in Botswana, and all the citizens consider themselves a single nation. Therefore, it is difficult to determine whether ethnic diversity could be seen as a cause of state failure. The assumption requires verification. It may be more reasonable to consider diversity in combination with other factors, as described below.

Hypothese 4: Population diversity increases the risk of state failure

ASSUMPTION 6. UNEQUAL ACCESS OF DIVERSE POPULATION TO POLITICAL INSTITUTIONS

Diversity per se may not directly influence the probability of failure. One can find sustainable states with strong ethnic diversity, like USA. However, the situation can be very different if dominating limited access institutions described in Assumption 2 lead to individual ethnic groups' inability to take part in the government policy decision-making processes or in the distribution of benefits from economic activities, etc., i.e. when political discrimination of individual ethnic groups exists, when their interests are not taken into account and their expectations are not met. One can quite reasonably expect that representatives of such groups would regard such a state illegitimate. Being discontent with such discrimination, groups may start turn to separatism or attempt to change the existing institutions, including by force. This is often manifested as follows: the power belongs to representatives of one ethnic group with no one to restrict their actions, so they oppress representatives of the other ethnic groups to win benefits for the one they belong to. Then some other group gathers forces sufficient to oust the first group from power and declare themselves the government. The new authorities act in the same way as the old ones did, by giving privileges to their own ethnic group at the expense of the others, and the process goes round in circles [Leeson, Williamson, 2009, p. 82].

A good example of a conflict based on unequal political rights for representatives of different groups of population in a state is the situation in Georgia with the Abkhazians and the Ossetians, as described by Demetriou [Demetriou in Milliken, 2003, pp. 112-118]. In the USSR, the Abkhazians and the Ossetians held a legal position guaranteed by Autonomous Soviet Socialist Republic (ASSR) and Autonomous Region (AR) status, respectively. After the Georgia Sovereignty Movement was initiated, the conflict escalated, as ethnic groups were reasonably wary of its independence resulting in restricting their rights. Georgia wanted to consolidate the

territories under the Georgian rule, while South Ossetia and Abkhazia wanted higher autonomy to make their own decisions on the same level as the Georgians. When the Georgian President Z. Gamsakhurdia abolished the autonomy of South Ossetia on December 11, 1990, the first months-long armed conflict broke out there. Georgia continued the conflict after South Ossetia held a referendum on uniting with North Ossetia in January 1992. That year, Georgia started military actions against Abkhazia. As a result, Georgia lost control of both regions and failed, due to the armed conflicts and to being unable to solve its domestic issues.

Political inequality between the clan of President Maxamed Siyaad Barre and the other clans led to the clans' overthrowing the existing regime in Somali in 1991. As a result, the country that had already failed was plunged into a civil war, which led to the state's ultimate collapse.

The issue is not viewed in the context of political discrimination of ethnic groups in the majority of studies on civil wars and ethnic conflicts. Authors examining ethnic diversity effects usually employ an ethnolinguistic fractionalization index, as provided in the Atlas Narodov Mira (1964) [e.g. Sambanis, 2001; Fearon, Laitin, 2003a; Collier, Hoeffler, 2004]. However Cederman, Wimmer et al. [e.g. Cederman, Girardin, 2007, Wimmer et al., 2010] mention that this index reflects interactions at the individual level[9] without due regard to the state's key role in ethnic conflicts, as what the ethnic groups fight with each other for is becoming the state's government and winning certain governmental privileges. The index reflects neither changes in ethnic composition over time (as it was developed in 1964), nor group interactions that are different from individual ones. In other words, it does not reflect the number of ethnic groups and distribution of power between them. Wimmer et al. invented an index of their own called the Ethnic Power Relations (EPR) [2010] and demonstrating that the more representatives of ethnic groups are excluded from the state government, the higher the risk of conflict as a result of popular discontent. It means that the government plays the key role in this process, as it either considers the interests of various groups and enables their access to the governance process, or does the opposite. As the authors put it, "the state is an active agent of political exclusion [of ethnic groups from such access] that creates [ethnic] conflicts in the first place" [Cederman at al., 2010, p.4]. Institutions regulating the decision-making process determine whether the interests of various groups are to be considered. Limited access institutions favor the elite groups, where the decision-making agents (government) belong. Therefore, they allocate public goods, public services and administrative positions to individuals from their own ethnic groups.

Hypothese 5: The more representatives of ethnic groups are excluded by limited access institutions from the decision-making process and political benefits, the higher the risk of state failure.

ASSUMPTION 7. ECONOMIC AND RESOURCE ALLOCATION INEQUALITY BETWEEN GROUPS

Extractive political institutions creating inequality in terms of political interests give rise to extractive economic institutions, which, in turn, create economic inequality between various groups and make their access to economic opportunities and resources unequal. Representatives of the groups receiving less resources become less loyal to the state and question its legitimacy. Such groups seek changes in the existing institutions that deny them rent, as well as amendments to the social contract.

Commenting on the situation, Rotberg [2004, p. 5] wrote that avarice propels that antagonism of ethnic, religious, linguistic, or other intercommunal enmity, "especially when greed is magnified by dreams of loot from discoveries of new, contested, pools of resource wealth such as petroleum deposit, diamond fields, other minerals, or fast-denuded forests". For instance, according to Doornbos [Milliken, 2003, p. 48], the reason that gave the start to an uprising in Sierra Leone (civil war lasted from 1991 to 2002) was the discontent of ethnic

[9] The index reflects the probability of two random individuals belonging to different ethno-linguistic groups.

groups, fueled by unequal access to power and resources, especially, to the highly profitable diamond trade.

Libya, in spite of having high living standards in comparison with the rest of Africa and a high degree of public goods provision for the region, is also a typical example. Libya is the 55th in the Human Development Index, leaving Russia behind (57th); its GNI per capita amounted to $21,666 in 2011, the highest on the African continent. It enjoys one of the highest life expectancies in Africa – 75.33 years (Tunis is the only country to exceed it, with 75.87 years), one of the lowest maternal mortality rates in Africa, 58 per 100,000 birthing mothers (Tunis is the only state with a better figure of 56 deaths), and the lowest infant mortality index in Africa – 13 deaths per 1,000 newborns [HDI, 2014]. According to the Fund for Peace, Libya was 57th in terms of quality of public goods provision in 2011[10], which is the best result in Africa [Failed States Index 2011]. However, many of these indicators mostly reflect the situation in large tribes affiliated with the government, while ethnic minorities living in the eastern part of Cyrenaica, such as the Amazigh, were discriminated in terms of political benefits, use of their language and their culture. In 2011, Libya was the 90th out of 178 countries, with 6.9 points out of 10 according to the indicator of 'uneven economic development', which reflects discrimination of individual groups present in the diverse population in access to public goods and economic opportunities, which indicates a high level of inequality between groups. Cyrenaica was the area where the uprising began, developing into a civil war. Limited access institutions result in interests of other ethnic groups being ignored, which leads to discontent and undermines legitimacy of the state in their opinion.

The breakup of the failed Sudan into the North and the South reflected a fundamental difference of ethnicity, religion and language, and the resulting injustice of the North discriminating the South. The cause of such conflicts consisted in ignoring ethnic traits when defining state borders during decolonization. Profits from oil production in the South became the bone of contention between the ethnic groups. In addition, the central government refused to provide the southerners with public goods, attacked them and performed air strikes on them treating the black southerners like enemies. Due to these factors, Sudan had been a failed state for quite a long time. The people living in the North considered the state legitimate, but southerners could not agree with them and sought autonomy. Petroleum revenues helped Sudan escape the collapse for a while [Rotberg, 2004, p.13]. Nevertheless, it finally broke up into 2 independent states in 2011.

Currently, I have not found a suitable variable that would reflect this assumption. Therefore, I will not review this as a hypothese in this paper.

ASSUMPTION 8. LACK OF STATE CENTRALIZATION – NON-STATE ACTORS

The existence of non-state actors challenges a state's advantage in violence and its legitimacy as perceived by the citizens. Citizens could choose those actors as legitimate in some circumstances. As Alexandros Yannis said, "the various forms of 'uncivil society', several kinds of non-state and sub-state actors, are the major and most visible forces that erode state authority not only from outside but also from inside" [Rotberg, 2004, p. 77].

ASSUMPTION 9. NOT ALL PLACES ON THE EARTH ARE READY TO BECOME A STATE

The assumption that the state is a normal state of affairs for a society is now considered as almost an axiom. But, according to Claphamm [Milliken, 2003, p. 27], "from the prehistoric origins of the first states, right up until the end of the nineteenth century, the world was divided between areas that were governed by states, and areas that were not". As Leeson and Williamson [2009, 78] pointed out, "the incredible success of a minority of states has overshadowed the fact that a majority of them are failed or in imminent danger of failing. As a result, political

[10] 2011 data is used because indexes from later years reflect effects of the civil war.

economists' attention has been diverted from the rule to the exception, creating the false impression that most experiments with government as a solution to the social dilemma are like those we observe in North America or Western Europe instead of those we observe in Sub-Saharan Africa or Eastern Europe". Thus, it could be that the idea of a state as a typical state of affairs is misleading. Some territories may be unprepared to become states, such as many colonies in Africa that had no state experience or tradition before the colonization. The experience of a statehool is thus an importante factore of the state sustainability.

Hypothese 6: Countries with the lack of the statehood experience or a long history of indirect rule are more prone to failure.

ASSUMPTION 10. EXTERNAL INTERVENTION

In some cases the crucial role for state failure was the one of external forces that change the balance of power and affect the government's advantage in violence in the territory such as the UN forces in Libya or the IS army in Syria.

Hypothese 7: An external force intervention can lead to the state failure.

ASSUMPTION 11. EXTERNAL SHOCKS

External shocks, such as natural calamities, humanitarian challenge or volatility of resource markets influence the possibility of state failure by making it more difficult for a state to perform its functions.

4. VERIFICATION OF THE ASSUMPTION REGARDING FACTORS LEADING TO STATE FAILURE

4.1 VARIABLES AND DATA SOURCES

As a dependent variable, I use the binary indicator of state failure, which I calculated in the based on the shadow economy to GDP ratios (see Appendix 2 for the list of failed states). In my model, I will review the period between 1999 and 2005. The analysis includes 118 countries. The model does not include countries[11] lacking data on their shadow economy to GDP ratios and open access countries[12].

H1: Predominance of extractive institutions (prevalence of non-democratic institutions, i.e. non-democratic political order in general) increases the risk of state failure.

To test this hypothesis, I will use the indicator of institutionalized autocracy (authority traits) from the Polity IV report [Marshall, M. G., and Jaggers K. 2014], which takes into consideration authority traits in every country, including those identified as anocratic or democratic based on the final Polity IV score. In my opinion, the more authority traits a country has, the higher the risk of its failure.

Another question that wants answering is whether failure befalls only anocracies or only autocracies. Repressive autocratic regimes are usually assumed to be more stable [e.g. Wimmer et al., 2009], while anocratic regimes are more prone to various shocks. To verify the dependency between failure and regime type, I have the data from the Polity IV report [Marshall, M. G., and Jaggers K. 2014] regarding which country is a pure autocracy (Polity IV score -6 and below) and which is an anocracy (Polity IV score from -5 to 5). Another point of interest is which of anocracies with prevalent autocratic traits [-5;0] or with democratic traits [1;5] are more prone to failure.

H2: The resource curse: dependency of an economy on recourse exports increases the state's risk of failure.

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[11] Countries lacking data in Schneider et al. [2010] are: Cuba, Somalia, Sudan, Iraq, Afghanistan, Uzbekistan, Turkmenistan, Taiwan, North Korea, East Timor.

[12] I consider the following as open access countries in my research: USA, Canada, UK, Ireland, Netherlands, Belgium, France, Switzerland, Spain, Portugal, Germany, Austria, Italy, Finland, Sweden, Norway, Denmark, Japan, Australia, New Zealand.

To identify countries depending on resource exports, I use the McKinsey Global Institute report [Dobbs et al., 2013] listing all of the resource-driven countries. The report treats as resource-driven "those economies where the oil, gas, and mineral sectors play a dominant role, using three criteria: (1) resources account for more than 20 percent of exports; (2) resources generate more than 20 percent of fiscal revenue; or (3) resource rents are more than 10 percent of economic output" [Dobbs et al., 2013, p.1]. I list as resource-driven all countries possessing at least one of the said traits. Correlation may be negative as well as positive. On one hand, an economy's resource dependency has an adverse impact on its other industries, while resource-driven income may discourage the state from adhering to the social contract. On the other hand, the resource rent may be used to buy the population's loyalty.

Not only the influence of resource dependency on the potential of failure presents interest but also which resources exert such influence. The correlation between oil and conflicts has been studied in many articles [e.g. Fearon, Laitin, 2003a; Collier, Hoeffler, 2004; Ross M. 2004, 2006; Wimmer, 2009; Goldstone et al., 2010 etc.]. Diamonds are also viewed as a particular natural resource having an impact on conflicts [e.g. Gilmore et al., 2005b, Ross M. 2006 etc.]. I am going to analyze the influence of these resources on the risk of state failure.

Research papers that view resource endowment as a factor in regression often use as a variable the ratio of exports of a resource to GDP, which, according to Ross [2006], presents the following problem. In conflict research, as well as in my research of state failure, the use of this variable provides no conclusive knowledge of the direction of correlation, i.e. whether it is the country's focus on exports that causes failure or it is failure that has led to a reduction of all other production sectors and a growth of export share. To reduce the risk of bidirectional correlation, I will use the oil production per capita variable from Wimmer et al. [2009]. The impact of a country's endowment with diamonds on its failure will be measured through the binary variable Diamond Production in Country from DIADATA data set [Gilmore et al., 2005a].

Hypothese 3: The higher the income differentiation, the higher the risk of state failure

As a variable reflecting uneven income distribution, I will use the Gini index from the World Development Indicators database [2015]. I expect that the higher the income inequality in the population, the more probable the risk of state failure.

Hypothese 4: Population diversity increases the risk of state failure.

As a measure of population diversity, I use ethnolinguistic fractionalization (ELF) from the The Ethnic Power Relations (EPR) data set [Harvard dataverse, 2010] from Ethnic Politics and Armed Conflict [Wimmer et al., 2009], which borrowed this indicator from Fearon and Laitin's data set [Fearon, Laitin, 2003b] for "Ethnicity, Insurgency, and Civil War" [2003a]. It is implied that the higher the population diversity, the more probable the risk of state failure.

H5: The more representatives of ethnic groups are excluded by limited access institutions from the decision-making process and political benefits, the higher the risk of state failure.

To measure the effect of excluding particular ethnic groups from access to political institutions on state failure, I will use the variable of the share of the excluded population in the total population that is ethnopolitically relevant (Share of ethnopoliticaly excluded population) from The Ethnic Power Relations (EPR) data set from "Ethnic Politics and Armed Conflict" [Wimmer et al., 2009]. Judging from the research by Wimmer et al., I presume that the larger part of the population is excluded from the decision-making process, the more probable is state failure. At the same time, according to Wimmer et al., if this variable is added to the model, the index should become insignificant in the case with ELF.

H6: Countries with the lack of the statehood experience or a long history of indirect rule are more prone to failure.

A lack of of the statehood experience or a long history of imperial past should increase the risk of a given state's failure. I will measure the parameter of the lack of statehood experience, by using the variable from the Imperial Past in Ethnic Power Relations (EPR) data set. This is how Wimmer et al. interpret it: "We rely on a measure of a state's past imperial history that calculates the percentage of years spent under imperial rule between 1816 and independence

(Wimmer and Min 2006). We count as imperial rule all years during which a territory was a colonial or imperial dependency (including the Soviet Union or the heartland of a landbased empire, e.g., Turkey under the Ottomans or Austria under the Habsburgs, but not the "mother country" of an empire with seaborne colonies, like Portugal)" [2009, p. 327].

H7: External force intervention increases the risk of state failure

As a variable for external intervention, I will use the data from the Armed Conflict Dataset [Gleditsch et al., 2002 and Harbom, 2009]. The types of conflict I am concerned with are interstate and internationalized internal armed conflicts. Within the internationalized internal armed conflict, I am only concerned with cases where third parties (countries or organizations) confronted the country where the conflict took place. Where a war was stated to have occurred on a state border or in disputed territories, I considered it as an intervention in both countries.

Other Variables

I control for other robustly significant variables, such as GDP per capita, population size and the region (Eastern Europe, Latin America, Sub-Sahara Africa, Asia, North Africa and Middle East).

4.2 MODELS AND FINDINGS

Now I will review the first specification, Model 1 (see Table 1.). I have as significant authority traits, ethnolinguistic fractionalization, imperial past, and GDP per capita. Contrary to expectations, the share of population excluded from access to political institutions on ethnic basis does not prove to be significant. The impact of an economy's dependency on natural resources turns out to be insignificant. This may be due to the fact that this indicator takes into account various types of resources, while not all of them can influence the risk of failure. I will further consider the impact of oil production per capita and the presence of a diamond production in a country. The factor of intervention turned out to be insignificant as well. This may be because in the countries that I review there were only 29 interventions in the time period in question, i.e. between 1999 and 2005. I add variables determining natural resources (oil and diamonds) to Model 2. The resource driven country variable now become significant, with a negative correlation. This is in line with the assumption that resource-endowed countries can buy their populations' loyalty with the rent received. However, this is not true for diamond-endowed countries, as a positive correlation exists between a country's having a diamond production and its failure. Contrary to expectations, oil production per capita has no significant effect on a state's failure.

Now I will try to find out whether the type of regime has an effect on failure. I have already found out that authority traits increase the risk of a state's failure. However, those traits can be found in autocracies, anocracies, as well as in dictatorships. So, are autocracies more prone to failure than anocracies? I add indicators identifying autocracies and anocracies to Model 3. As a result, the authority traits variable remains significant, and both variables of pure autocracies and anocracies also have a significant influence, increasing the risk of a state's failure. The last question I would like to answer is which of the anocracies with prevalent autocratic traits or those with prevalent democratic traits are more prone to failure. Including variables characteristic of these types of anocracies in Model 4 produced the following result. Authority traits per se lost their significance, while pure autocracies and anocracies with democratic traits (I will call them 'weak democracies') exert significant influence on the risk of failure. Anocracies with authority traits ('weak autocracies') have no significant impact on the risk of failure.

Table 1. State failure probit regression model

Model No.:	1	2	3	4
Authority traits	.0788*	.1055**	−.2765**	−.0153
	(.0433)	(.0467)	(.1167)	(.1421)
Resource-driven country	−.2844	−.418**	−.7863***	−.7774***
	(.1862)	(.209)	(.2328)	(.2445)
Gini	.0032	−.0087	−.0064	−.0098
	(.0168)	(.0173)	(.0175)	(.0183)
ELF	2.543***	2.635***	3.0159***	3.2152***
	(.463)	(.424)	(.4567)	(.4585)
Share of ethnopoliticaly excluded population	−.2026	—	—	—
	(.5256)			
Imperial past	1.3868***	1.4744***	1.54096***	1.4075***
	(.4336)	(.4471)	(.4531)	(.4626)
Foreign intervention	.0383	.1617	−.5518	−.7152
	(.7382)	(.7461)	(.8383)	(.8225)
Diamonds production	—	.95***	1.0326***	1.1757***
		(.3529)	(.3275)	(.3165)
Oil production per capita	—	−.1114	—	—
		(.0883)		
Pure autocracy	—	—	3.4362***	1.7126*
			(.8975)	(1.007)
Anocracy	—	—	1.1647**	—
			(.4556)	
Autocratic anocracy	—	—	—	−.2214
				(.6553)
Democratic anocracy	—	—	—	1.2873**
				(.5007)
Other Variables				
GDP per capita	−.1083***	−.1244***	−.1354***	−.1488***
	(.0288)	(.029)	(.0314)	(.0329)
Population size	−1.79044e-06	−3.72459e-06	−2.5788e-06**	−2.98665e-06*
	(1.19235e-06)	(2.3353e-06)	(1.07788e-06)	(1.5355e-06)
East Europe	3.7239	3.4946	3.178	3.12
	(13.2665)	(14.1559)	(9.2345)	(15.6329)
Latin America	4.7700	4.8673	4.7526	4.6647
	(6.9282)	(14.3064)	(8.1203)	(14.5273)
Sub-Sahara Africa	2.6725	2.1634	1.5768	1.5725
	(15.4919)	(15.6173)	(4.5079)	(15.6377)
Asia	2.7772	2.3491	1.8952	1.6477
	(9.3808)	(13.4943)	(11.1232)	(14.9878)
North Africa and Middle East	−2.4978	−2.8229	−4.2399	−4.255
	(9.3808)	(18.1164)	(2.9607)	(17.0668)
Constant	−5.0630	−4.4170	−4.3964	−4.0939
	(17.2047)	(13.6017)	(8.1688)	(14.7698)
Number of observations	292	292	290	291
Correctly predicted	213	215	223	222
	(72,9%)	(73,6%)	(76,9%)	(76,3%)

Note: The dependent variable is coded «1» for countryyears in which country was failed and «0» in all the others. Robust standard errors in parentheses. * p <.1; ** p<.05; *** p<.01

Thus, I obtain the following results from the model evaluation. A state bearing the traits of authoritarian governance is exposed to a higher risk of failure as perceived by their populations. In particular, pure autocracies and weak democracies are more likely to fail. The dependency of an economy on resource exports enables the state to bribe its population into loyalty, or provides other advantages allowing it to remain legitimate in the opinion of the population. Diamonds are en exception, as their production presence in a country increases the risk of failure. The population's ethnic diversity has a negative impact on a state's legitimacy. The higher the index of ethnolinguistic fractionalization in a country, the more likely is the state to fail in the opinion of the population. Imperial past is also an important factor in a state's stability. The higher the percentage of years spent under imperial rule, the higher the risk of that state's failure. Assumptions about the influence of economic inequality of the population, inequality in access to political institutions on ethnic basis and interventions on the risk of a state's failure have not been proven.

5. CONCLUDING REMARKS

State failure is a trendy topic. Different indices of state failure are released by international organizations; many experts describe in their articles cases of state failure and collapse. Yet, this topic cannot boast a coherent theoretical basis. A broader approach to the assessment of state failure is needed. In my paper, I offer a conceptual framework to study state failure based on several points. First of all, I point out the terms of "legitimacy" and "sovereignty" in the definition of a state. Legitimacy for elites as well as legitimacy for the citizens is an important aspect in analyzing state failure.

I emphasize the necessity to distinguish institutional failure or state collapse as a separate subject of analysis. State collapse ***means the disappearance of a state's institutions.*** I add an analysis of functional failure from three different points of view. A state is an organization, therefore it has its shareholders (elites), stakeholders (population), and external agents (experts and international organizations). Each of these actors has its own point of view about state failure and each of those views is very important. Expert assessments of state failure and indices currently prevail the field. International organizations use vast amounts of data to release indices and reports of state weakness and failure. Yet I have a point of criticism: this is a normative approach. The criteria of a sustainable state and the list of functions it should perform is created by an expert and is meant to be universal for all countries around the globe. It does not take into account the characteristics of individual countries and the opinions of their population. The second approach to evaluate failure is based on the opinion of the state itself as an organization and its shareholders, which are its elites. The specifics of this dimension of state failure is that it pays attention to the goals set by the state. These goals may greatly differ from the expectations of the population. In particular, predatory states may be interested in repressions and will be sustainable from their own point of view if succeed. The third dimension involves the opinion of the population. Citizens evaluate the state as sustainable if it is legitimate, meets the key expectations, or, in other words, complies with the terms of its social contract. In this dimension, a predatory state is a failed state. I suggest measuring state failure in terms of the population's view by 'voting with their feet', as it is an inverse measurement of legitimacy by an act of consent. By 'voting with their feet' I understand the transfer to the shadow economy. Countries with the largest shadow economy are failed according to their population's opinion.

I compare the expert indices of state failure with the results of my estimations based on the shadow economy data. Around 30% of countries are in both lists, so these countries are truly failed. Some countries from one list are just below the threshold in the other. However, there are some countries in the Fragile States Index that are sustainable according to their populations' opinion, e.g. Syria and Yemen in 2004. This is the situation of alleged failure. This is a very important point, since expert assessments and indices may affect the investment attractiveness of a country and the policies of international organizations and governments. It is essential to understand whether a state failure is true or alleged when making some international decisions.

In this paper I test the hypotheses about the reasons of state failure. The following should be noted among the reasons of state failure. States with authority traits (pure autocracies and weak democracies in particular) are more prone to failure. Weak autocracies have not demonstrated any significant influence on failure. The resource dependency of an economy reduces the risk of state failure, providing it with mechanisms to sustain the loyalty of its population. However, this rule does not include diamonds producing countries, which are more likely to fail. More stable are ethnically homogeneous states and states with more statehood tradition (less imperial past).

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APPENDIX 1: DATA ON THE SHADOW ECONOMY

Shadow economy to GDP	1999	2000	2001	2002	2003	2004	2005	2006	2007
Albania	34,9	35,3	35,7	35,9	36,2	36,7	36,9	37,3	37,7
Algeria	34	34,1	34,4	34,9	35,8	36,6	37,3	37,3	37,1
Angola	41,6	41,6	41,9	42,8	43	43,1	45	45,9	47,6
Argentina	25,6	25,4	24,7	23,3	24,4	25,3	26,1	27	27,8
Armenia	46	46,3	47,2	48,1	48,8	49,1	50	50,7	51,7
Australia	14,2	14,3	14,3	14,4	14,7	14,8	14,8	14,9	15
Austria	9,6	9,8	9,9	9,8	9,8	9,8	9,8	10	10,1
Azerbaijan	60,2	60,6	60,9	61,2	62,2	62,7	64,7	67,6	69,6
Bahrain	18,2	18,4	18,6	18,8	19	19,3	19,7		
Bangladesh	35,2	35,6	35,7	35,5	35,6	35,7	36	36,7	37
Belarus	47,9	48,1	48,3	48,6	49,2	50,1	51,1	52,1	53
Belgium	21,7	22,2	22,3	22,4	22,4	22,6	22,6	22,9	23,1
Benin	48,5	49,4	49,8	50	50,2	50,1	49,8	50	50,4
Bhutan	29,2	29,4	29,6	29,7	30,1	30,1	30,5	30,6	31,1
Bolivia	67,2	67,1	66,6	66,5	66,5	67,3	69,9	71,3	70,7
Bosnia and Herzegovina	33,9	34,1	34,2	34,3	34,7	34,6	35	35,3	35,4
Botswana	33	33,4	33,6	33,5	33,8	34	34,1	34,5	34,8
Brazil	38,8	39,8	39,7	39,7	40	40,9	41,1	41,8	43
Bulgaria	36,5	36,9	37,2	37,7	38,3	39	39,7	40,4	41,2
Burkina Faso	41,5	41,4	41,5	41,4	42,4	42,7	43	43	43,1
Burundi	40,4	40	39,8	40	39,8	39,8	39,7	39,8	39,8
Cambodia	49,8	50,1	50,6	50,2	51	51,4	52,4	53,4	54,2
Cameroon	32,3	32,8	33,2	33,4	33,9	34	33,9	34,2	33,5
Canada	15,7	16	16,1	16,2	16,3	16,4	16,5	16,6	16,6
Central African Republic	51,5	51,7	51,2	50,1	46,9	46,5	46,9	48,1	48,9
Chad	46,6	46,2	46,9	47,4	48,4	51,2	51,6	51	50,5
Chile	19,7	19,8	20	20	20,2	20,5	20,7	20,9	21,1
China	13	13,1	13,2	13,3	13,4	13,6	13,7	14	14,3
Colombia	38,8	39,1	39,3	39,4	40,4	41,2	42,3	43,4	45,1
Comoros	40	39,6	40,2	41,6	41,7	40,2	41,3	40,9	39,8
Congo, Dem. Rep.	48,8	48	47,8	47,9	49	49,2	49,3	49,3	49,4
Congo, Rep.	46,8	48,2	49,2	49,7	49,7	50,3	51,9	53,3	52
Costa Rica	26,3	26,2	26	26	26,3	26,5	26,8	27,4	28,3
Cote d'Ivoire	44,9	43,2	42,1	41	40,5	40,4	40,2	39,7	39,6
Croatia	33	33,4	33,6	34,2	34,7	35,2	35,5	36	36,5
Cyprus	28,3	28,7	29,2	29,6	29,2	29,3	29,7	30,1	30,8
Czech Republic	18,9	19,1	19,3	19,4	19,5	19,8	20,4	20,9	21,2
Denmark	17,7	18	18	18	18	18,2	18,4	18,9	19
Dominican Republic	31,8	34,4	35,2	35,6	36,1	37,4	38,3	38,7	38,8
Ecuador	34,7	34,4	35,2	35,6	36,1	37,4	38,3	38,7	38,8
Egypt, Arab Rep.	34,7	35,1	35	34,5	34,8	35,2	35,4	36,1	37

El Salvador	46,1	46,3	46,4	47	47,4	47,6	48	48,7	49,5
Equatorial Guinea	33	32,8	33,7	34,1	34,4	34,9	35,1	35	35,5
Eritrea	42,6	40,3	41,2	41,3	40,3	40	40	39,4	39,2
Estonia		38,4	38,8	39,3	40	40,3	41,1	41,9	42,3
Ethiopia	39,9	40,3	41,2	41	40,5	42	43,1	44,5	45,7
Fiji	34,3	33,6	33,9	34,6	34,7	35,3	35,8	36,2	34,6
Finland	17,8	18,1	18,3	18,4	18,5	18,6	18,8	19,1	19,2
France	14,8	15,2	15,4	15,3	15,4	15,5	15,6	15,6	15,7
Gabon	49,9	48	48,7	48,4	48,5	48	48,3	48	48,8
Gambia, The	44,1	45,1	45,5	43,1	44,8	46,4	46,6	47,8	49,3
Georgia	66,2	67,3	67,4	67,4	68,7	69,2	69,5	71,1	72,5
Germany	15,6	16	16,1	16	15,8	15,9	16	16,4	16,7
Ghana	41,8	41,9	42	42,2	42,5	42,9	44,3	45,3	45,6
Greece	28,9	28,7	29,2	29,4	30	30,4	30,6	31	31
Guatemala	51,4	51,5	51,4	51,8	52,3	52,5	52,7	53,9	55
Guinea	39,5	39,6	39,9	40,4	40,4	40,6	40,8	40,3	40
Guinea-Bissau	38,8	39,6	39,6	38,5	37,7	37,3	37,5	37,7	37,6
Guyana	33,8	33,6	33,8	33,5	33,3	33,8	33	33,4	33,3
Haiti	56	55,4	54,7	54,3	54,4	53,4	53,7	53,8	53,7
Honduras	48,9	49,6	49,4	49,6	50,3	50,9	52	53,1	54,2
Hong Kong SAR, China	16,2	16,6	16,6	16,6	16,8	17,3	17,7	18,2	18,6
Hungary	24,8	25,1	25,4	25,7	25,8	26,1	26,2	26,5	26,4
India	23	23,1	23,4	23,6	24	24,2	24,5	25	25,6
Indonesia	19,1	19,4	19,4	19,5	19,7	20	20,2	20,5	20,9
Iran, Islamic Rep.	18,7	18,9	18,8	19,1	19,6	19,9	19,7	20,1	20,5
Ireland	15,7	15,9	15,9	15,9	15,8	16	16,2	16,3	16,4
Israel	21,2	21,9	21,6	21,1	21,2	21,7	22	22,6	23
Italy	26,5	27,1	27,5	27,4	27,2	27,2	27,1	27,3	27,4
Jamaica	36,4	36,4	36,6	36,6	38,6	39,1	38,9	40,2	40,5
Japan	11	11,2	11,2	11,1	11,2	11,5	11,7	12	12,1
Jordan	19,4	19,4	19,6	19,9	20,1	20,6	20,9	21,4	21,7
Kazakhstan	42,6	43,2	43,9	44,5	45,4	45,9	46,7	47,7	48,2
Kenya	35	34,3	34,7	33,8	33,9	34,9	36	37,7	39,4
Korea, Rep.	26,7	27,5	27,7	28,1	28,2	28,5	28,7	29	29,4
Kuwait	20,1	20,1	19,9	19,9	20,9	21,5	22,2	22,5	
Kyrgyz Republic	41	41,2	41,6	41	41,9	42,6	42,4	42,6	43,6
Lao PDR	30,3	30,6	31	31,2	31,4	31,8	32,3	32,8	33,2
Latvia	39,6	39,9	40,4	40,9	41,4	42	41,7	43,7	44,3
Lebanon	34,1	34,1	34,5	34,7	35	35,9	35,9	35,4	36,2
Lesotho	30,9	31,3	31,5	31,6	31,9	32,5	32,4	33,3	33,8
Liberia	42,3	43,2	43,2	43,3	41,6	41,2	41,6	42	42,3
Libya	35,5	35,1	35,8	36,5	35,3	36,4	37,3	38,5	39,6
Lithuania	30,2	30,3	30,7	31,2	31,9	32,2	32,8	33,4	34
Luxembourg	9,6	9,8	9,8	9,8	9,8	9,8	9,9	10	10,2
Macao SAR, China	12,9	13,1	13,2	13,4	13,7	14,2	14,4	14,6	15,3
Macedonia, FYR	34,9	35,7	34,8	35,1	35,5	36,4	36,9	37,7	38,8

Madagascar	39,1	39,6	40,4	34,7	36	37,7	38,5	39,5	40,6
Malawi	40,7	40,3	38,3	36,5	37,5	38,3	38,2	39,4	41,1
Malaysia	30,1	31,1	30,6	30,7	31	31,4	31,7	32,2	32,6
Mali	42,1	42,3	43,8	44,4	44,7	44	44,5	44,7	44,7
Mauritania	36,7	36,1	36,2	36,4	36,4	37,2	37,9	40,8	
Mauritius	22,9	23,1	23,3	23,2	23,5	23,8	23,8	24	24,3
Mexico	29,5	30,1	30	29,9	29,7	30,1	30,3	31	31,3
Moldova	44,6	45,1	46,1	45,8	45,7	46,2	46,8	46	
Mongolia	18,5	18,4	18,5	18,8	19,1	19,5	19,8	20,1	20,5
Morocco	36,3	36,4	37,1	37,3	37,8	38,7	37,9	39,8	39,8
Mozambique	39,5	40,3	40,2	40,8	40,8	40,9	41,6	42	
Myanmar	53,6	52,6	53,7	54,5	56,3	56,2	57,4		
Namibia	31,4	31,4	31,6	31,5	32,2	33,1	33,3	34,1	34,4
Nepal	36,4	36,8	36,9	36,5	36,7	36,8	36,9	37,3	37,5
Netherlands	12,9	13,1	13,1	13	12,9	13	13	13	13,2
New Zealand	12,6	12,8	13	13,2	13,4	13,6	13,5	13,5	13,6
Nicaragua	44,7	45,2	45,1	44,9	45,4	46,2	46,6	46,8	47,2
Niger	42,1	41,9	43	43,7	44,4	43,2	44,4	45,6	
Nigeria	57,8	57,9	58	58,2	59,5	60,8	62,1	62,9	
Norway	19	19,1	19,2	19,2	19,2	19,7	19,7	20	20,2
Oman	18,7	18,9	19,3	19,3	19,4	19,5	19,8	20,2	
Pakistan	36,6	36,8	36,6	36,8	37,4	38,3	38,8	39,8	40,1
Panama	63,4	64,1	63,5	63,1	63,9	64,7	66,4	68,1	
Papua New Guinea	36,7	36,1	35,4	35,1	35,1	35,2	34,9	35,1	35,7
Paraguay	41,8	39,8	39,9	39,5	40,6	41,5	41,6	42,5	
Peru	59,7	59,9	59,6	60,8	61,2	61,9	62,7	64,2	66,3
Philippines	42,7	43,3	43,6	44,1	44,7	45	46,6	47,2	48,4
Poland	27,5	27,6	27,6	27,5	27,7	27,9	28,3	28,7	29,1
Portugal	22,4	22,7	22,8	22,7	22,4	22,3	22,2	22,2	22,5
Qatar		17,8	17,5	17,8	17,3	19,4	18,4		
Romania	34,6	34,4	35,1	35,4	36,1	37	37,3	38,3	38,9
Russian Federation	45,1	46,1	47	47,8	48,8	49,5	50,1	50,8	52
Rwanda	40,1	40,3	40	40,7	39,9	40,4	41,4	41,5	
Saudi Arabia	18,1	18,4	18	17,5	18,5	19,1	19,4	19,5	20
Senegal	45,2	45,1	45,6	45,1	45,8	46,9	47,8	47,8	48,4
Sierra Leone	40,3	40,2	41,2	43,3	43,8	44,2	44,3	45	45,6
Singapore	12,9	13,1	12,9	12,9	13,1	13,4	13,5	13,8	14
Slovak Republic	18,9	18,9	19	19,2	19,5	19,7	20,2	20,6	21,1
Slovenia	26,9	27,1	27,5	27,6	27,8	28	28,4	28,9	29,5
South Africa	28,4	28,4	28,4	28,8	29	29,7	30,4	30,9	31,7
Spain	22,4	22,7	22,9	23	23	22,9	23	23	23,1
Sri Lanka	44	44,6	44,6	45,1	45,3	45,2	45,7	46,2	47
Sudan	34,1								
Suriname	39,9	39,8	40,3	40,8	41,5	42,9	43,3	43,9	44,7
Swaziland	39,4	41,4	41,5	41,8	42,5	42,7	43,4	43,8	
Sweden	18,9	19,2	19,3	19,4	19,6	19,9	19,8	20,2	20,4
Switzerland	8,4	8,6	8,6	8,6	8,4	8,6	8,7	8,9	9,1
Syrian Arab Republic	19,3	19,3	19,4	19,5	19,3	19,5	19,6	19,9	20,1

Tajikistan	42,9	43,2	43,5	43,8	44,3	44,8	45	45,3	45,5
Tanzania	58	58,3	58,9	59,7	60,1	60,6	61,3	61,9	63
Thailand	51,8	52,6	52,8	53,8	55,1	55,8	56,4	56,9	57,2
Togo	35,8	35,1	34,8	35,7	35,3	35,2	35,2	35,6	
Trinidad and Tobago	34,1	34,4	34,5	34,4	35,4	35,7	35,9	36,8	37,3
Tunisia	38,1	38,4	38,9	39	39,4	39,9	40	40,9	41,4
Turkey	31,5	32,1	31,4	31,8	32,4	33,2	34,2	34,7	35,2
Uganda	42,7	43,1	43,3	43,3	43,7	43,8	44	45,1	45,8
Ukraine	51,7	52,2	53	53,7	55	55,9	57	57,5	58,1
United Arab Emirates	26,5	26,4	25,8	25,3	26,5	27,5	28	29,4	
United Kingdom	12,6	12,7	12,8	12,8	12,9	13	13	13,1	13,2
United States	8,6	8,7	8,7	8,6	8,7	8,8	8,9	8,9	9
Uruguay	51,7	51,1	50,5	48,2	48,6	51,1	53	53,7	56
Venezuela, RB	33,4	33,6	33,7	31,8	30,2	32,3	33,7	35,3	36,3
Vietnam	15,4	15,6	15,7	15,9	16	16,1	16,5	16,6	16,8
Yemen, Rep.	27,1	27,4	27,5	27,6	27,7	27,8	28,2	28	28
Zambia	48,5	48,9	49,5	49,7	50,4	51,2	51,7	53,1	54,3
Zimbabwe	59,2	59,4	57,4	56,1	55,2	56,6	56,8	56,6	56,1
1st quartile	22,65	22,7	22,875	22,925	22,85	22,825	22,9	24	23,1
2nd quartile (median)	34,7	34,75	35,05	35,1	35,45	36,15	36,45	37,3	37,05
3rd quartile	**42,45**	**42,5**	**43,05**	**43,3**	**43,725**	**43,35**	**44,325**	**45,1**	**45,6**

Source: Schneider et al., 2010.

APPENDIX 2. FAILED STATES ACCORDING TO THE SHARE OF THE SHADOW ECONOMY

Table 1. Failed states according to the share of the shadow economy 1999-2002

List of Failed States 1999	Shadow economy to GDP (%) 1999	List of Failed States 2000	Shadow economy to GDP (%) 2000	List of Failed States 2001	Shadow economy to GDP (%) 2001	List of Failed States 2002	Shadow economy to GDP (%) 2002
Bolivia	67,2	Georgia	67,3	Georgia	67,4	Georgia	67,4
Georgia	66,2	Bolivia	67,1	Bolivia	66,6	Bolivia	66,5
Panama	63,4	Panama	64,1	Panama	63,5	Panama	63,1
Azerbaijan	60,2	Azerbaijan	60,6	Azerbaijan	60,9	Azerbaijan	61,2
Peru	59,7	Peru	59,9	Peru	59,6	Peru	60,8
Zimbabwe	59,2	Zimbabwe	59,4	Tanzania	58,9	Tanzania	59,7
Tanzania	58	Tanzania	58,3	Nigeria	58	Nigeria	58,2
Nigeria	57,8	Nigeria	57,9	Zimbabwe	57,4	Zimbabwe	56,1
Haiti	56	Haiti	55,4	Haiti	54,7	Myanmar	54,5
Myanmar	53,6	Myanmar	52,6	Myanmar	53,7	Haiti	54,3
Thailand	51,8	Thailand	52,6	Ukraine	53	Thailand	53,8
Ukraine	51,7	Ukraine	52,2	Thailand	52,8	Ukraine	53,7
Uruguay	51,7	Central African Republic	51,7	Guatemala	51,4	Guatemala	51,8
Central African Republic	51,5	Guatemala	51,5	Central African Republic	51,2	Cambodia	50,2
Guatemala	51,4	Uruguay	51,1	Cambodia	50,6	Central African Republic	50,1
Gabon	49,9	Cambodia	50,1	Uruguay	50,5	Benin	50
Cambodia	49,8	Honduras	49,6	Benin	49,8	Congo, Rep.	49,7
Honduras	48,9	Benin	49,4	Zambia	49,5	Zambia	49,7
Congo, Dem. Rep.	48,8	Zambia	48,9	Honduras	49,4	Honduras	49,6
Benin	48,5	Congo, Rep.	48,2	Congo, Rep.	49,2	Belarus	48,6
Zambia	48,5	Belarus	48,1	Gabon	48,7	Gabon	48,4
Belarus	47,9	Congo, Dem. Rep.	48	Belarus	48,3	Uruguay	48,2
Congo, Rep.	46,8	Gabon	48	Congo, Dem. Rep.	47,8	Armenia	48,1
Chad	46,6	Armenia	46,3	Armenia	47,2	Congo, Dem. Rep.	47,9
El Salvador	46,1	El Salvador	46,3	Russian Federation	47	Russian Federation	47,8
Armenia	46	Chad	46,2	Chad	46,9	Chad	47,4
Senegal	45,2	Russian Federation	46,1	El Salvador	46,4	El Salvador	47
Russian Federation	45,1	Nicaragua	45,2	Moldova	46,1	Moldova	45,8
Cote d'Ivoire	44,9	Gambia, The	45,1	Senegal	45,6	Senegal	45,1
Nicaragua	44,7	Moldova	45,1	Gambia, The	45,5	Sri Lanka	45,1
Moldova	44,6	Senegal	45,1	Nicaragua	45,1	Nicaragua	44,9
Gambia, The	44,1	Sri Lanka	44,6	Sri Lanka	44,6	Kazakhstan	44,5

Sri Lanka	44	Philippines	43,3	Kazakhstan	43,9	Mali	44,4
Tajikistan	42,9	Cote d'Ivoire	43,2	Mali	43,8	Philippines	44,1
Philippines	42,7	Kazakhstan	43,2	Philippines	43,6	Tajikistan	43,8
Uganda	42,7	Liberia	43,2	Tajikistan	43,5	Niger	43,7
Eritrea	42,6	Tajikistan	43,2	Uganda	43,3	Liberia	43,3
Kazakhstan	42,6	Uganda	43,1	Liberia	43,2	Sierra Leone	43,3
Liberia	42,3	Mali	42,3	Niger	43	Uganda	43,3
Mali	42,1	Ghana	41,9	Cote d'Ivoire	42,1	Gambia, The	43,1
Niger	42,1	Niger	41,9	Ghana	42	Angola	42,8
Ghana	41,8	Angola	41,6	Angola	41,9	Ghana	42,2
Paraguay	41,8	Burkina Faso	41,4	Kyrgyz Republic	41,6	Swaziland	41,8
Angola	41,6	Swaziland	41,4	Burkina Faso	41,5	Comoros	41,6
Burkina Faso	41,5	Kyrgyz Republic	41,2	Swaziland	41,5	Burkina Faso	41,4
Kyrgyz Republic	41	Eritrea	40,3	Eritrea	41,2	Eritrea	41,3
Malawi	40,7	Ethiopia	40,3	Ethiopia	41,2	Cote d'Ivoire	41
Burundi	40,4	Malawi	40,3	Sierra Leone	41,2	Ethiopia	41
Sierra Leone	40,3	Mozambique	40,3	Latvia	40,4	Kyrgyz Republic	41
Rwanda	40,1	Rwanda	40,3	Madagascar	40,4	Latvia	40,9
Comoros	40	Sierra Leone	40,2	Suriname	40,3	Mozambique	40,8
Ethiopia	39,9	Burundi	40	Comoros	40,2	Suriname	40,8
Suriname	39,9	Latvia	39,9	Mozambique	40,2	Rwanda	40,7
Latvia	39,6	Brazil	39,8	Rwanda	40	Guinea	40,4
Guinea	39,5	Paraguay	39,8	Guinea	39,9	Burundi	40
Mozambique	39,5	Suriname	39,8	Paraguay	39,9	Brazil	39,7
Swaziland	39,4	Comoros	39,6	Burundi	39,8	Paraguay	39,5
Madagascar	39,1	Guinea	39,6	Brazil	39,7	Colombia	39,4
Brazil	38,8	Madagascar	39,6	Colombia	39,3	Estonia	39,3
Colombia	38,8	Colombia	39,1	Estonia	38,8	Malawi	36,5
		Estonia	38,4	Malawi	38,3	Madagascar	34,7

Table 2. Failed states according to the share of the shadow economy 2003-2006

List of Failed States 2003	Shadow economy to GDP (%) 2003	List of Failed States 2004	Shadow economy to GDP (%) 2004	List of Failed States 2005	Shadow economy to GDP (%) 2005	List of Failed States 2006	Shadow economy to GDP (%) 2006
Georgia	68,7	Georgia	69,2	Bolivia	69,9	Bolivia	71,3
Bolivia	66,5	Bolivia	67,3	Georgia	69,5	Georgia	71,1
Panama	63,9	Panama	64,7	Panama	66,4	Panama	68,1
Azerbaijan	62,2	Azerbaijan	62,7	Azerbaijan	64,7	Azerbaijan	67,6
Peru	61,2	Peru	61,9	Peru	62,7	Peru	64,2
Tanzania	60,1	Nigeria	60,8	Nigeria	62,1	Nigeria	62,9

Nigeria	59,5	Tanzania	60,6	Tanzania	61,3	Tanzania	61,9
Myanmar	56,3	Zimbabwe	56,6	Myanmar	57,4	Ukraine	57,5
Zimbabwe	55,2	Myanmar	56,2	Ukraine	57	Thailand	56,9
Thailand	55,1	Ukraine	55,9	Zimbabwe	56,8	Zimbabwe	56,6
Ukraine	55	Thailand	55,8	Thailand	56,4	Guatemala	53,9
Haiti	54,4	Haiti	53,4	Haiti	53,7	Haiti	53,8
Guatemala	52,3	Guatemala	52,5	Uruguay	53	Cambodia	53,4
Cambodia	51	Cambodia	51,4	Guatemala	52,7	Congo, Rep.	53,3
Zambia	50,4	Chad	51,2	Cambodia	52,4	Honduras	53,1
Honduras	50,3	Zambia	51,2	Honduras	52	Zambia	53,1
Benin	50,2	Uruguay	51,1	Congo, Rep.	51,9	Belarus	52,1
Congo, Rep.	49,7	Honduras	50,9	Zambia	51,7	Chad	51
Belarus	49,2	Congo, Rep.	50,3	Chad	51,6	Russian Federation	50,8
Congo, Dem. Rep.	49	Belarus	50,1	Belarus	51,1	Armenia	50,7
Armenia	48,8	Benin	50,1	Russian Federation	50,1	Benin	50
Russian Federation	48,8	Russian Federation	49,5	Armenia	50	Congo, Dem. Rep.	49,3
Uruguay	48,6	Congo, Dem. Rep.	49,2	Benin	49,8	El Salvador	48,7
Gabon	48,5	Armenia	49,1	Congo, Dem. Rep.	49,3	Central African Republic	48,1
Chad	48,4	Gabon	48	Gabon	48,3	Gabon	48
El Salvador	47,4	El Salvador	47,6	El Salvador	48	Gambia, The	47,8
Central African Republic	46,9	Senegal	46,9	Senegal	47,8	Senegal	47,8
Senegal	45,8	Central African Republic	46,5	Central African Republic	46,9	Kazakhstan	47,7
Moldova	45,7	Gambia, The	46,4	Moldova	46,8	Philippines	47,2
Kazakhstan	45,4	Moldova	46,2	Kazakhstan	46,7	Nicaragua	46,8
Nicaragua	45,4	Nicaragua	46,2	Gambia, The	46,6	Sri Lanka	46,2
Sri Lanka	45,3	Kazakhstan	45,9	Nicaragua	46,6	Moldova	46
Gambia, The	44,8	Sri Lanka	45,2	Philippines	46,6	Angola	45,9
Mali	44,7	Philippines	45	Sri Lanka	45,7	Niger	45,6
Philippines	44,7	Tajikistan	44,8	Angola	45	Ghana	45,3
Niger	44,4	Sierra Leone	44,2	Tajikistan	45	Tajikistan	45,3
Tajikistan	44,3	Mali	44	Mali	44,5	Uganda	45,1
Sierra Leone	43,8	Uganda	43,8	Niger	44,4	Sierra Leone	45
Uganda	43,7	Niger	43,2	Ghana	44,3	Mali	44,7
Angola	43	Angola	43,1	Sierra Leone	44,3	Ethiopia	44,5
Ghana	42,5	Ghana	42,9	Uganda	44	Suriname	43,9
Swaziland	42,5	Suriname	42,9	Swaziland	43,4	Swaziland	43,8
Burkina Faso	42,4	Burkina Faso	42,7	Suriname	43,3	Latvia	43,7

Kyrgyz Republic	41,9	Swaziland	42,7	Ethiopia	43,1	Colombia	43,4
Comoros	41,7	Kyrgyz Republic	42,6	Burkina Faso	43	Burkina Faso	43
Liberia	41,6	Ethiopia	42	Kyrgyz Republic	42,4	Kyrgyz Republic	42,6
Suriname	41,5	Latvia	42	Colombia	42,3	Paraguay	42,5
Latvia	41,4	Paraguay	41,5	Latvia	41,7	Liberia	42
Mozambique	40,8	Colombia	41,2	Liberia	41,6	Mozambique	42
Paraguay	40,6	Liberia	41,2	Mozambique	41,6	Estonia	41,9
Cote d'Ivoire	40,5	Brazil	40,9	Paraguay	41,6	Brazil	41,8
Ethiopia	40,5	Mozambique	40,9	Rwanda	41,4	Rwanda	41,5
Colombia	40,4	Guinea	40,6	Comoros	41,3	Comoros	40,9
Guinea	40,4	Cote d'Ivoire	40,4	Brazil	41,1	Tunisia	40,9
Eritrea	40,3	Rwanda	40,4	Estonia	41,1	Mauritania	40,8
Brazil	40	Estonia	40,3	Guinea	40,8	Bulgaria	40,4
Estonia	40	Comoros	40,2	Cote d'Ivoire	40,2	Guinea	40,3
Rwanda	39,9	Eritrea	40	Eritrea	40	Jamaica	40,2
Burundi	39,8	Burundi	39,8	Tunisia	40	Pakistan	39,8
Malawi	37,5	Malawi	38,3	Burundi	39,7	Madagascar	39,5
Madagascar	36	Madagascar	37,7	Madagascar	38,5	Malawi	39,4

Source: Appendix 1

APPENDIX 3: THE COMPARISON OF DIMENSIONS OF THE STATE FAILURE 2004 – 2006

FSI 2005	Shadow Economy 2004		FSI 2006	Shadow Economy 2005		FSI 2007	Shadow Economy 2006
Cote d'Ivoire	Georgia		*Sudan*	Bolivia		*Sudan*	Bolivia
Congo (D. R.)	Bolivia		**Congo, D.R.**	Georgia		*Iraq*	Georgia
Sudan	Panama		Cote d'Ivoire	Panama		*Somalia*	Panama
Iraq	Azerbaijan		*Iraq*	Azerbaijan		**Zimbabwe**	Azerbaijan
Somalia	Peru		**Zimbabwe**	Peru		**Chad**	Peru
Sierra Leone	Nigeria		**Chad**	**Nigeria**		Cote d'Ivoire	**Nigeria**
Chad	**Tanzania**		*Somalia*	Tanzania		**Congo, D.R.**	Tanzania
Yemen	**Zimbabwe**		**Haiti**	**Myanmar**		*Afghanistan*	Ukraine
Liberia	**Myanmar**		Pakistan	Ukraine		Guinea	Thailand
Haiti	Ukraine		*Afghanistan*	**Zimbabwe**		**Central African Republic**	**Zimbabwe**
Afghanistan	Thailand		Guinea	Thailand		**Haiti**	Guatemala
Rwanda	**Haiti**		Liberia	**Haiti**		Pakistan	**Haiti**
North Korea	**Guatemala**		**Central African Republic**	Uruguay		*North Korea*	Cambodia
Colombia	Cambodia		*North Korea*	Guatemala		*Myanmar*	**Congo, Rep.**
Zimbabwe	**Chad**		Burundi	Cambodia		**Uganda**	Honduras
Guinea	Zambia		**Sierra Leone**	Honduras		Bangladesh	Zambia
Bangladesh	Uruguay		Yemen	Congo, Rep.		**Nigeria**	Belarus
Burundi	Honduras		**Myanmar**	Zambia		Ethiopia	**Chad**
Dominican Republic	Congo Rep.		Bangladesh	**Chad**		Burundi	Russian Federation
Central African Rep.	Belarus		Nepal	Belarus		*Timor-Leste*	Armenia
Venezuela	Benin		Uganda	Russian Federation		Nepal	Benin
Bosnia & Herz.	Russian Federation		**Nigeria**	Armenia		*Uzbekistan*	**Congo, Dem. Rep.**
Myanmar	**Congo Dem.Rep.**		*Uzbekistan*	Benin		Sierra Leone	El Salvador
Uzbekistan	Armenia		Rwanda	**Congo, Dem. Rep.**		Yemen	**Central African Republic**
Kenya	Gabon		**Sri Lanka**	Gabon		**Sri Lanka**	Gabon
Bhutan	El Salvador		Ethiopia	El Salvador		**Congo, Republic**	Gambia, The
Uganda	Senegal		Colombia	Senegal		Liberia	Senegal
Laos	**Central African Republic**			**Central African Republic**		Lebanon	Kazakhstan
Syria	Gambia The			Moldova		Malawi	Philippines
Ethiopia	Moldova			Kazakhstan		*Solomon Islands*	Nicaragua

Guatemala	Nicaragua			Gambia, The		Kenya	**Sri Lanka**
Tanzania	Kazakhstan			Nicaragua		**Niger**	Moldova
Equatorial Guinea	Sri Lanka			Philippines			Angola
	Philippines			**Sri Lanka**			**Niger**
	Tajikistan			Angola			Ghana
	Sierra Leone			Tajikistan			Tajikistan
	Mali			Mali			**Uganda**
	Uganda			Niger			
				Ghana			
				Sierra Leone			

Note: Bold underline – coincidence of countries in both lists; grey italic – missing data on the shadow economy
Source: Fund For Peace, 2005, 2006, 2007; Appendix 2