Economic Openness and
State Spending in the Post-Communist World

Timothy Frye

Assistant Professor
Department of Political Science
The Ohio State University
2140 Derby Hall
Columbus, OH 43210

Frye.51@osu.edu

Draft October 2002

I would like to thank David Bearce, Hyeok Yong Kwan, Lucy, Ed Mansfield, Kevin Sweeney, Rich Timpone, and Lucan Way and seminar participants at Cornell University.
Economic Openness and
State Spending in the Post-Communist World

Abstract

Few topics have received more scholarly attention over the last decade than the
determinants of state spending, but the postcommunist countries have been largely absent
from the debate. This is unfortunate because all post-communist countries began the
decade with large states and autarkic economies, but now provide far greater variation in
openness and the size of government than in other regional samples. This essay examines
the impact of commercial openness on state spending in 25 postcommunist countries
from 1990-1998 and presents three findings. First, the effects of economic openness on
aggregate state spending are “u-shaped.” In highly closed economies public spending
remains robust as autarky reinforces the propensity to subsidize declining firms. As these
states initially open their economies, however, global pressures on state agents to
improve competitiveness drive down total state spending. At higher levels of openness,
increased demand for public financing of human capital and social compensation raises
total spending. Second, the effects of openness on the composition of state spending are
consistent with the argument. Subsidies decline with openness, while compensation
increases with openness. Third, there is evidence that in countries where “reform-
oriented” rather than “traditional” ex-communist parties channel opposition to increased
exposure to trade, state spending is higher and the economy more open.