

# Fiscal Control without a Fiscal Contract: Implicit Extraction and Public Finance in Communist Albania

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## ABSTRACT

Public finance theory traditionally assumes the existence of a fiscal contract linking taxation, representation, and accountability. Communist regimes challenge this assumption by sustaining extensive public extraction and allocation without pluralistic taxation or political consent. This article develops the concept of *fiscal control without a fiscal contract* to analyze how public finance operates under central planning as a system of implicit extraction rather than as a policy instrument negotiated with taxpayers. Using Communist Albania (1945–1990) as a primary case study, the article adopts a qualitative, theory-driven approach and constructs an analytical framework structured around visibility of extraction, channels of coercion, fiscal discretion, accounting opacity, monetary control, and distributive effects. The analysis shows that a set of implicit extraction mechanisms—including administered prices, wage compression, constrained monetization, state monopolies, and the direct appropriation of production surpluses through centrally planned productive units—functioned as substitutes for explicit taxation, fulfilling allocative and stabilizing functions while suppressing fiscal visibility and accountability. A brief comparative reference to other socialist systems highlights Albania's specificity as a case of extreme centralization and fiscal opacity. The article contributes to public finance scholarship by extending the analysis of fiscal systems beyond contractual settings and by conceptualizing budgets and accounting practices as instruments of governance rather than as arenas of collective choice.

**Keywords:** Public finance; Communism; Implicit extraction; Fiscal contract; Budgetary governance; Albania

## INTRODUCTION

Public finance is commonly analyzed through the lens of taxation, budgeting, and redistribution within a framework of political representation. This framework presupposes a fiscal contract: a relationship in which citizens consent to taxation in exchange for public goods and political accountability. Yet this assumption is ill-suited to regimes in which taxation is marginal, political participation absent, and fiscal transparency structurally suppressed.

Communist regimes present a persistent analytical puzzle. Despite the limited role of explicit taxation, they mobilized substantial public resources, financed large-scale investment, and maintained extensive systems of provision. How did public finance function in the absence of a fiscal contract? And what does this imply for the scope of public finance theory?

This article addresses these questions through the case of Communist Albania, one of the most centralized and autarkic socialist economies of the twentieth century. Rather than treating Albania as a historical anomaly, the article approaches it as a revealing case for fiscal analysis. The central research question is: in what ways did public finance under a communist regime function as a system of implicit extraction rather than as a policy instrument grounded in a fiscal contract?

By focusing on public finance mechanisms rather than on planning outcomes, the article makes two contributions. First, it introduces the concept of fiscal control without a fiscal contract, capturing the replacement of explicit taxation by implicit extraction embedded in prices, wages, accounting practices, and monetary

arrangements. Second, it situates these mechanisms within public finance theory, showing how core fiscal functions were maintained while accountability and fiscal visibility were systematically neutralized.

## LITERATURE REVIEW

### Fiscal Contract and Public Finance Theory

The notion of a fiscal contract occupies a central place in public finance and political economy. Classical and contemporary scholarship links taxation to representation, accountability, and state legitimacy (Musgrave, 1959; Levi, 1988; Tilly, 1990). In this perspective, the visibility of taxation creates incentives for bargaining, oversight, and institutionalized constraints on fiscal authority. Public finance is thus understood not only as a technical domain but also as a political relationship between the state and taxpayers.

However, this literature largely assumes the presence of identifiable taxpayers and explicit fiscal instruments. Non-tax revenues are typically treated as secondary or residual, rather than as potential substitutes for taxation as a structuring principle of state–society relations.

### Public Finance under Socialism

Scholarship on socialist economies emphasizes central planning, state ownership, and soft budget constraints (Kornai, 1980; Nove, 1983). Fiscal systems in these contexts relied heavily on enterprise surpluses, administered prices, and monetary mechanisms, while formal taxation played a limited role. Although these features are well documented, they are generally analyzed in terms of efficiency, shortages, or macroeconomic imbalance rather than through the lens of fiscal visibility and legitimacy.

Kornai's analysis of shortages, for instance, provides crucial insight into allocation failures but leaves aside the fiscal implications of price administration as a form of implicit extraction. Similarly, studies of socialist budgeting tend to describe institutional arrangements without conceptualizing them as alternatives to the fiscal contract.

### Scholarship on Communist Albania

The literature on Communist Albania is rich in political history and descriptive economic analysis (Pano, 1984; Fischer, 1999; Biberaj, 1990). It documents extreme centralization, wage compression, autarkic investment strategies, and chronic shortages. Yet Albania's fiscal system has rarely been examined as an object of public finance analysis in its own right. Budgeting, accounting, and revenue mobilization are typically treated as technical aspects of planning rather than as instruments of governance.

While the literature on public finance has extensively theorized the fiscal contract as a cornerstone of legitimacy and accountability, and while scholarship on socialist systems has documented administered prices, enterprise surpluses, and monetary control, these two bodies of work have largely evolved in parallel. Public finance theory tends to overlook the capacity of non-tax mechanisms to substitute for taxation as a structuring fiscal relationship, while analyses of socialist economies rarely conceptualize fiscal arrangements as coherent extraction regimes. As a result, the functioning of public finance in the absence of an explicit fiscal contract remains under-theorized. This article addresses this gap by conceptualizing implicit extraction mechanisms as functional substitutes for taxation, embedded within prices, wages, accounting practices, and monetary arrangements.

### Analytical Framework

To analyze public finance without a fiscal contract, the article develops a qualitative analytical framework structured around six dimensions:

1. **Visibility of extraction:** the degree to which households can identify and attribute resource extraction to the state.

2. **Channels of coercion:** the mechanisms through which compliance is enforced, including price controls, wage regulation, and savings requirements.
3. **Fiscal discretion:** the extent of centralized authority over resource allocation and reallocation.
4. **Accounting opacity:** the degree to which fiscal flows are aggregated or obscured in public accounts.
5. **Monetary control:** the use of money creation and repression as substitutes for taxation or borrowing.
6. **Distributive effects:** the allocation of burdens and benefits across households and sectors.

This framework allows for a systematic examination of how fiscal functions are performed in non-contractual regimes and provides a basis for comparative analysis.

### **Public Finance without Taxation: The Albanian Case**

#### **Administered Prices and State Monopolies**

In Albania's centrally planned system, administered prices and state monopolies constituted the primary channels of public resource mobilization. Prices for essential goods were fixed administratively and adjusted infrequently, insulating them from cost signals. Contemporary IMF assessments indicate that production surpluses generated within centrally planned productive units through controlled price margins represented a major source of state revenue, effectively substituting for explicit taxation (IMF, 1992).

From a public finance perspective, administered prices operated as implicit taxes. Unlike indirect taxes, these transfers were neither itemized nor visible in fiscal accounts. INSTAT statistical yearbooks from the late 1980s confirm the stability of nominal prices despite persistent shortages, suggesting that extraction occurred through quantity rationing rather than price adjustment (INSTAT, 1989; 1991).

#### **Wage Compression, Constrained Monetization, and Labor Control**

Official statistics indicate an extreme compression of wages across sectors, reflecting a deliberate constraint on household purchasing power. While Communist Albania did not operate a formal or generalized system of compulsory savings comparable to those observed in other socialist regimes, the economic structure significantly constrained households' ability to convert monetary income into discretionary consumption. Chronic shortages, administered prices, limited access to consumer goods, and the absence of meaningful choice reduced the functional role of money, even when monetary income was received.

Rather than leading to demonstrable large-scale accumulation of household monetary balances, this configuration produced a situation of constrained monetization, in which income, saving, and consumption were weakly differentiated. Within the centralized monobank system, monetary resources circulated almost exclusively through state-controlled channels, allowing public authorities to mobilize financial means without relying on explicit borrowing or visible taxation. From a public finance perspective, this mechanism can be understood as a form of implicit financial appropriation, insofar as it transferred purchasing power toward state use without contractual recognition, fiscal traceability, or political mediation.

Public investment absorbed a substantial share of these resources, but allocation priorities were largely disconnected from productivity or welfare considerations. Significant expenditure was directed toward defense infrastructure—including the large-scale construction of bunkers—as well as ideological and symbolic projects. While economically non-productive in conventional terms, these investments served clear political and disciplinary objectives. In fiscal terms, they illustrate how implicitly mobilized resources were allocated toward regime consolidation rather than allocative efficiency, reinforcing the interpretation of public finance in Communist Albania as a system of resource mobilization and control.

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## Monetary Control and Seigniorage

Albania's monobank system subordinated monetary policy entirely to planning objectives. Money creation financed public expenditure, while price stability was officially maintained through administrative controls rather than market adjustment. In this context, monetary expansion did not translate into open inflation but was absorbed through shortages, rationing, and suppressed consumption.

This configuration enabled the state to capture seigniorage revenues—understood as the implicit transfer of real resources generated by monetary issuance—without explicit inflation signaling or identifiable fiscal instruments. Seigniorage thus operated as a diffuse and non-transparent extraction mechanism, functionally equivalent to a tax on monetary holding and use, but without the institutional features of taxation. In the absence of a fiscal contract, monetary control constituted a central pillar of public resource mobilization.

## Public Investment and Allocation

Public investment dominated expenditure, particularly in heavy industry and infrastructure aligned with autarkic objectives. Social transfers played a limited role. Redistribution occurred primarily through employment and in-kind provision rather than through fiscal transfers, blurring the boundary between fiscal policy and labor administration (IMF, 1992).

## Budgeting and Accounting Practices

Budgeting practices in Communist Albania reveal the core of fiscal control without a contract. Budget documents were integrated into the economic plan and lacked disaggregated revenue categories. Reports emphasized plan fulfillment rather than fiscal balance, rendering extraction untraceable. Accounting opacity was not incidental but structural: by aggregating revenues and eliminating identifiable taxes, the regime neutralized fiscal contestation. Budgets functioned as internal compliance tools rather than as instruments of accountability.

## DISCUSSION

The Albanian case demonstrates that the absence of a conventional fiscal contract does not imply the absence of public finance, but rather the transformation of its operating logic. Public resources were mobilized, allocated, and stabilized through a configuration of implicit extraction mechanisms that substituted for explicit taxation, market borrowing, and politically mediated fiscal choice. In this sense, public finance under Communist Albania functioned less as a policy domain than as an institutional technology embedded within the broader architecture of political control.

Crucially, this does not imply that formal taxation was entirely absent. Limited forms of explicit taxation and social contributions—particularly payroll-based social insurance contributions—did exist. However, their fiscal weight, political salience, and visibility to households were marginal relative to the dominant extraction channels operating through administered prices, wage regulation, the direct appropriation of production surpluses through centrally planned productive units, constrained monetization, and monetary control. Explicit taxation therefore failed to constitute a structuring relationship between the state and society. It neither organized political bargaining nor provided a basis for fiscal accountability, which remains central to the concept of a fiscal contract in public finance theory.

From a functional perspective, the Albanian system fulfilled core Musgravian roles in a highly transformed manner. Allocation was achieved through centralized planning and public investment decisions rather than through budgetary arbitration. Stabilization relied on administrative quantity controls and monetary repression instead of countercyclical fiscal instruments. Redistribution occurred primarily through employment guarantees, in-kind provision, and controlled access to resources, blurring the analytical boundary between fiscal policy and labor administration. These functions were performed without the institutional mediation typically associated with taxation, debt issuance, or parliamentary oversight.

The role of money is particularly revealing in this regard. Rather than serving as a neutral unit of account or a vehicle for intertemporal choice, money in Communist Albania operated within a constrained institutional environment that weakened its allocative and informational functions. Monetary issuance financed public expenditure, while administrative price controls and shortages absorbed adjustment pressures. In this configuration, seigniorage functioned as a diffuse extraction mechanism, transferring real resources to the state without identifiable taxpayers, explicit tax instruments, or visible inflation. Importantly, this process did not require large-scale accumulation of household monetary balances; it relied instead on the degradation of money's economic role and the centralization of financial intermediation.

Public investment patterns further illuminate the nature of fiscal governance. A substantial share of mobilized resources was directed toward projects with limited economic returns but high political and disciplinary value, including defense infrastructure and symbolic construction. From a public finance perspective, these expenditures highlight a decoupling between investment and productivity considerations. Fiscal resources were allocated not to maximize economic efficiency or welfare, but to reinforce regime objectives and control mechanisms. This reinforces the interpretation of public finance as an instrument of governance rather than as a domain of allocative optimization.

Comparatively, Albania represents an extreme configuration within the spectrum of socialist systems. Unlike larger socialist economies that retained more developed statistical capacities, diversified fiscal instruments, or limited forms of decentralization, Albania combined autarky, institutional simplicity, and accounting opacity. This combination amplified the role of implicit extraction mechanisms and minimized the visibility of fiscal flows, making the absence of a fiscal contract particularly stark. As a result, the Albanian case serves not as an anomaly, but as a limiting case that clarifies the structural conditions under which public finance can operate without taxation as a central organizing principle.

Overall, the findings suggest that public finance theory, when confined to contractual and tax-centered frameworks, risks overlooking entire classes of fiscal systems. The Albanian experience demonstrates that states can mobilize and allocate resources without relying on explicit taxation or politically mediated fiscal instruments, albeit at the cost of transparency, accountability, and fiscal legitimacy. Recognizing these configurations expands the analytical scope of public finance and invites a reassessment of the relationship between extraction, legitimacy, and governance beyond democratic and market-based settings.

## CONCLUSION

This article has examined how public finance operated under a communist regime in the absence of a fiscal contract, using Communist Albania as a primary case study. It has shown that while explicit taxation and social contributions were not entirely absent, they played a marginal role in both revenue mobilization and political mediation. Instead, public finance relied predominantly on a configuration of implicit extraction mechanisms embedded in administered prices, wage regulation, enterprise surpluses, constrained monetization, and monetary control.

By analyzing these mechanisms through a public finance lens, the article demonstrates that core fiscal functions can be performed without taxation serving as the central organizing principle of state–society relations. Allocation, stabilization, and redistribution were maintained, but in forms that bypassed fiscal visibility, parliamentary arbitration, and accountability. Public finance thus functioned less as a domain of policy choice than as an institutional technology integrated into the broader architecture of communist governance.

The Albanian case also underscores the importance of distinguishing between the existence of fiscal instruments and their political and analytical significance. The presence of formal taxes or contributions does not in itself constitute a fiscal contract. What matters is whether taxation structures bargaining, accountability, and legitimacy. In Communist Albania, this structuring role was assumed by non-tax mechanisms that neutralized the informational and political foundations of fiscal contestation.

More broadly, the article contributes to public finance theory by extending its analytical scope beyond contractual and tax-centered frameworks. It highlights the need to conceptualize implicit extraction



mechanisms—not merely as residual features of centrally planned economies, but as coherent substitutes for taxation in regimes where political representation and fiscal negotiation are structurally absent. In doing so, it invites a reconsideration of how fiscal capacity, legitimacy, and governance can be analytically understood in non-democratic and non-market settings.

Future research could apply this framework to other communist or authoritarian regimes, as well as to contemporary systems where fiscal extraction increasingly operates through indirect, opaque, or depoliticized channels. Such extensions would further clarify the conditions under which public finance can function without a fiscal contract, and the limits of such configurations in terms of sustainability, legitimacy, and institutional resilience.

### **Data Availability Statement**

No new data were created or analyzed in this study.

### **Conflict of Interest**

None.

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