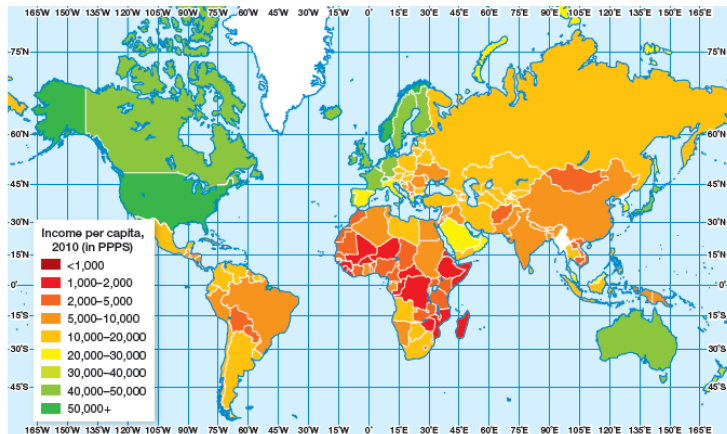# Political Economy of State Building

Daron Acemoglu
(based on joint research with James Robinson)
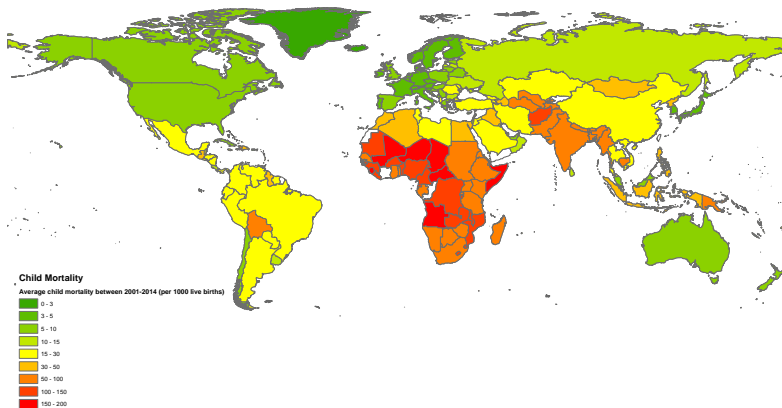MIT

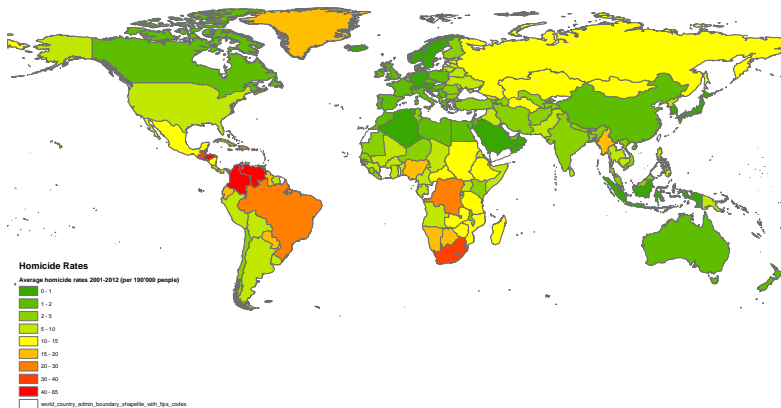Munich Lecture, November 17, 2015.

Huge Differences in Prosperity

- Huge differences in prosperity (GDP per capita) but also associated with access to public services, security, lack of violence and oppression.
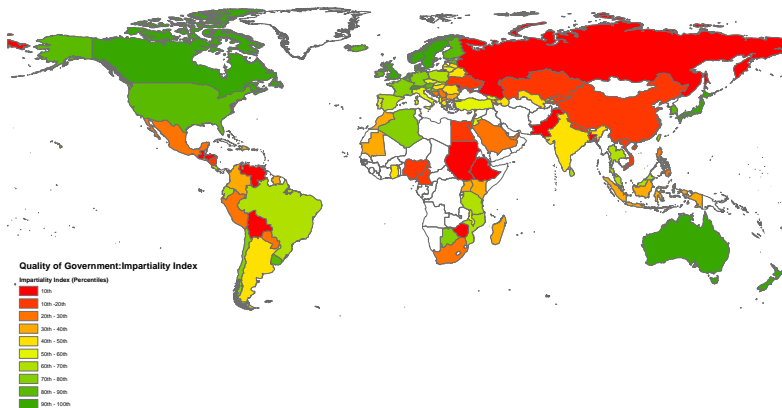
But Also in Measures of Quality of Life: Infant Mortality

Child Mortality
Average child mortality between 2001-2014 (per 1000 live births)
- 0 - 3
- 3 - 5
- 5 - 10
- 10 - 15
- 15 - 30
- 30 - 50
- 50 - 100
- 100 - 150
- 150 - 200

But Also in Measures of Quality of Life: Security of Life

Homicide Rates
Average homicide rates 2001-2012 (per 100'000 people)

- 0 - 1
- 1 - 2
- 2 - 5
- 5 - 10
- 10 - 15
- 15 - 20
- 20 - 30
- 30 - 40
- 40 - 65
- world_country_admin_boundary_shapefile_with_fips_codes

And More Generally in Quality of Government: Impartiality

And Quality of Government: Professionalism

Quality of Government: Professionalization Index

Professionalization Index (Percentiles)
- 10th
- 10th-20th
- 20th-30th
- 30th-40th
- 40th-50th
- 50th-60th
- 60th-70th
- 70th-80th
- 80th-90th
- 90th-100th
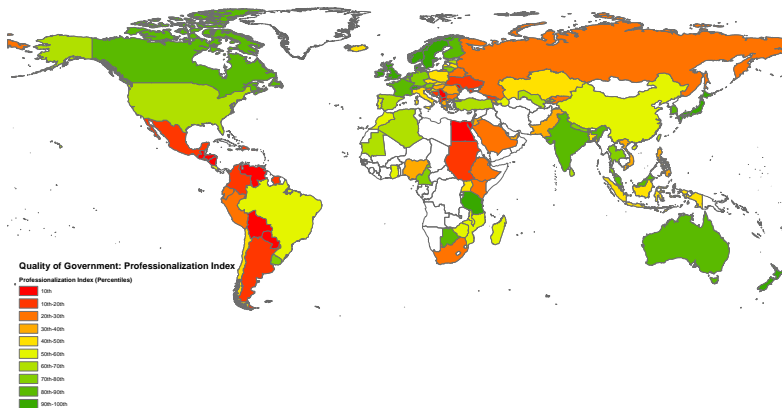
Inclusive and Extractive Economic Institutions

- In *Why Nations Fail,* James A. Robinson and I attempted to think about these issues in terms of a simple typology.
- **Extractive economic institutions:** Lack of law and order. Insecure property rights; entry barriers and regulations preventing functioning of markets and creating a nonlevel playing field. Often designed by and for the benefit of the "elite".
- **Inclusive economic institutions:** Secure property rights, law and order, markets and state support (public services and regulation) for markets; open to relatively free entry of new businesses; uphold contracts; access to education and opportunity for the great majority of citizens.
- Example of interactions: how did 17th-century Barbados maintain slavery?

Economic and Political Institutions: Synergies
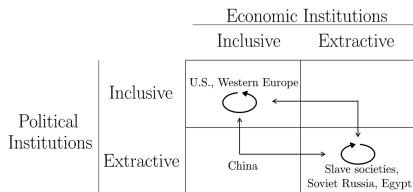
- **Inclusive political institutions:** Made up of two separate conditions:
  - **pluralism**: broad distribution of political power and participation, constraints and checks on politicians, and rule of law (democracy necessary but not sufficient for this!).
  - **political centralization**: Weberian monopoly of legitimate violence over a territory and ability of the state to regulate economic activity, impose taxes and provide public goods—so as to avoid what Thomas Hobbes referred to as "war of all against all" leading to "solitary, nasty, brutish and short" lives of men.
- **Extractive political institutions:** Failure of either component.

The Logic of Extractive Institutions

- **Main thesis** of *Why Nations Fail*: growth is much more likely under inclusive (economic and political) institutions than extractive institutions.
- But why? Why wouldn't every dictator, tyrant and elite wish to create as much wealth as possible?
- The reason is that growth, and inclusive institutions that will support it, will create both winners and losers.
- Thus there is a logic supporting extractive institutions and stagnation
  - **economic losers**: those who will lose their incomes, for example their monopolies, because of changes in institutions or introduction of new technologies
  - **political losers:** those who will lose their politically privileged position, their unconstrained monopoly of power, because of growth and its supporting institutions—**fear of political creative destruction**
  - both are important in practice, but particularly political losers are a major barrier against the emergence of inclusive institutions and economic growth.

State Capacity

- What about state capacity? Related to political centralization.
- It matters a lot in practice, both from micro and macro evidence (as we will discuss tomorrow).

Figure 1
Tax Revenue and Income 1990-2000

State Building and Inclusive Institutions

- The capacity of the state — to provide public services, regulate economic activity and contain violence — important for economic activity.
- Who wouldn't want state capacity?
- In fact, one might naïvely think that state building is more likely under extractive institutions, because they create greater gains from strong states.
  - This is actually what Samuel Huntington proposed in 1968 and has become the basis of a political science literature (and a guide to Western interventions from Afghanistan to Somalia).
- But the reality is more nuanced.
- In fact, many states we see around us are "stunted" — without much capacity. Why?

Basins of Attraction of State Building

- Most Leviathans are "Paper Leviathans" or are stunted because of lack of pluralism or weakness of civil society.
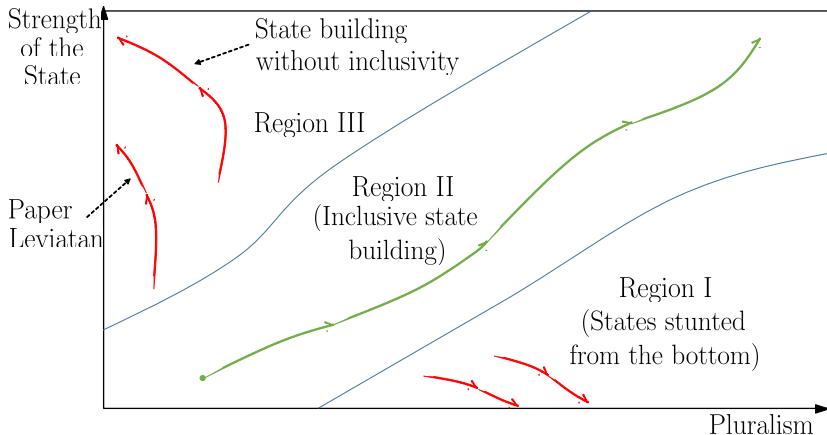
Stunted States

- **Stunted from the Bottom** (Region I): In this case the main problem for the creation of state capacity is that society is powerful and well organized and reluctant to allow such institutions to develop.
  - Many stateless societies like the Pre-colonial Tiv of Nigeria have social institutions and norms which make accumulating power difficult
  - In Lebanon the 'communities' (Druze, Maronites, Orthodox, Shias, Sunnis..) hold power and keep the state weak like the Tiv.

Stunted States: The Tiv in Nigeria
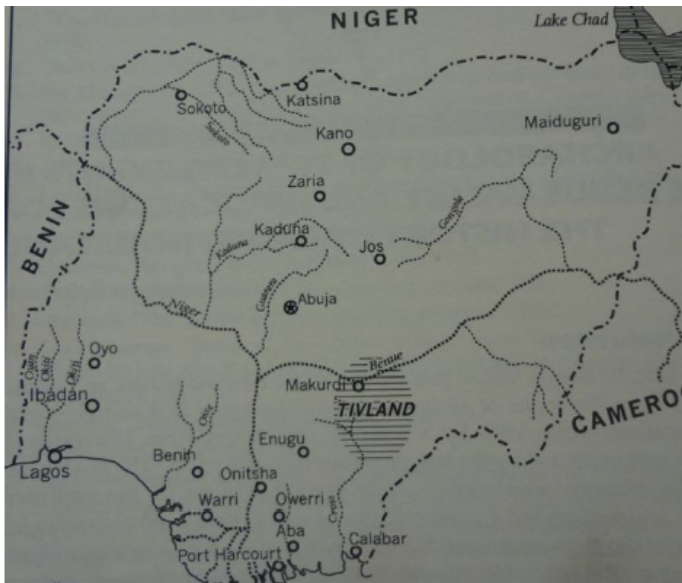
Stunted States: The Tiv in Nigeria (continued)

- During the summer of 1939, social and economic activity came to a standstill in Tivland because of a cult called *Nyambua*. At the heart of the cult was a shrine and a man called Kokwa who sold charms to provide protection from *mbatsav* or "witches".
- *Tsav* means "power", particularly power over others. A person with tsav (it is a substance that grows on the heart of a person) can make others do what they want and kill them by using the power of fetishes and tsav can be increased by cannibalism.

  "A diet of human flesh makes the tsav, and of course the power, grow large. Therefore the most powerful men, no matter how much they are respected or liked, are never fully trusted. They are men of tsav - and who knows?" (Bohannon, 1958)

- The people with tsav belong to an organization — the mbatsav, which means a group of *witches*.
- Mbatsav also means: *Powerful people*.

Stunted States: The Tiv in Nigeria (continued)

- In 1939, the Nyambua cult had turned against the 'chiefs' created by British indirect rule (the Tiv had no chiefs before).
- In fact, turning against the powerful was a common occurrence:

  "...the Tiv have taken strong measures to overcome the mbatsav. These big movements have taken place over a period extending from the days of the ancestors into modern times" (Akiga, 1939).
  "Men who had acquired too much power ... were whittled down by means of witchcraft accusations.. Nyambua was one of a regular series of movements to which Tiv political action, with its distrust of power, gives rise so that the greater political institutions - the one based on the lineage system and a principle of egalitarianism - can be preserved" (Bohannon, 1958)

- But to have a state someone has to become powerful, start giving orders to others who accept their authority...

Stunted States: Modern Lebanon

- The stunting of states from the bottom is not confined to stateless societies or tribal peoples.
- Lebanon illustrates how this can happen in the context of a modern-looking society.
- The parliament has not voted on a budget for eight years, letting the Cabinet write its own.
- The country's lawmakers and politicians took nearly a year to agree on a new government after the prime minister resigned March 2013.
- Since the current parliament of 128 lawmakers was elected in June 2009, the lawmakers have met 21 times — an average of 4 times a year. In 2013, lawmakers met only twice and passed two laws. One of them was to extend their mandate for 18 months, pushing back elections.
- The last time Lebanese parliament ratified the budget set by the government was in 2005.
- Lawmakers have never met to discuss Syrian refugees.

Stunted States: Modern Lebanon (continued)

- Society is divided into 18 recognized communities, mostly along religious lines, of which the largest are the Sunnis, the Shias, the Druze, the Maronites and the Orthodox Christians.
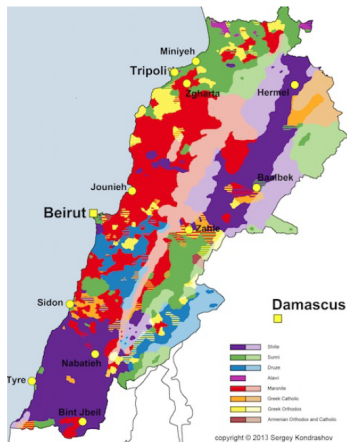
Stunted States: Modern Lebanon (continued)

- An agreement reached after Lebanon's independence in 1943 ensures that the president is a Christian, the prime minister is a Sunni Muslim and the speaker of parliament is a Shiite Muslim.
- This agreement and the underlying distribution of power in the electoral system is so brittle that Lebanon has not conducted a census since 1932 since learning that the distribution of population between the different communities might have changed could destabilize the whole equilibrium.
- The state does not have a monopoly of violence and most communities have armed militias. Each community taxes its members, but Lebanon itself has no income tax system. There is no national health care plan and no nationwide electricity grid, because each community provides health care and electricity to its members.

Stunted States: Lack of Monopoly of Violence in Modern Lebanon

Stunting from the Top: Paper Leviathans

- **Paper Leviathans** (Region III): Plenty of examples of authoritarian state building, which nonetheless it is with low state capacity.
  - Ottoman Empire, Turkey, Rwanda, Pakistan, Guatemala.
- Interesting example: Colombia. For much of the last several decades, Colombia has been dominated by two main non-state armed actors:
  - the 'left-wing' Fuerzas Armadas Revolucionarias de Colombia (FARC—The Revolutionary Armed Forces of Colombia) and
  - the 'right-wing' paramilitary forces which in 1997 coalesced into the Autodefensas Unidas de Colombia (AUC—United Self-Defense Organization of Colombia).

Stunted States: Paramilitaries in Politics

- After the foundation of the AUC in 1997 a strategic decision was taken to influence national politics (possibly taken at Santa Fé de Ralito in 2001 where members of the AUC, politicians and members of congress signed a document calling for the 'refounding of the country.')
- In 2005 accusations of involvement of the AUC in the elections of 2002. Scandal with the demobilization of Jorge 40 and his 2,000 strong block on March 10, 2006 in La Mesa, César.
- Jorge 40's computer fell into the hands of government officials and it contained emails ordering his men to recruit peasants to pretend to be paramilitaries during demobilization ceremonies and also listed over 500 murders, and many links between politicians and paramilitaries.
- As of April 22, 2008, 62 members of Congress and the Senate were official suspects, 33 lawmakers, including Mario Uribe, President Uribe's cousin, were in jail awaiting trial for links with paramilitaries.

Stunted States: Paramilitary Control

"What I said is that 35% of the Congress was elected in areas where there were states of the Self-Defense groups, in those states we were the ones collecting taxes, we delivered justice, and we had the military and territorial control of the region and all the people who wanted to go into politics had to come and deal with the political representatives we had there."
- Salvatore Mancuso

# Stunted States: Paramilitary Control
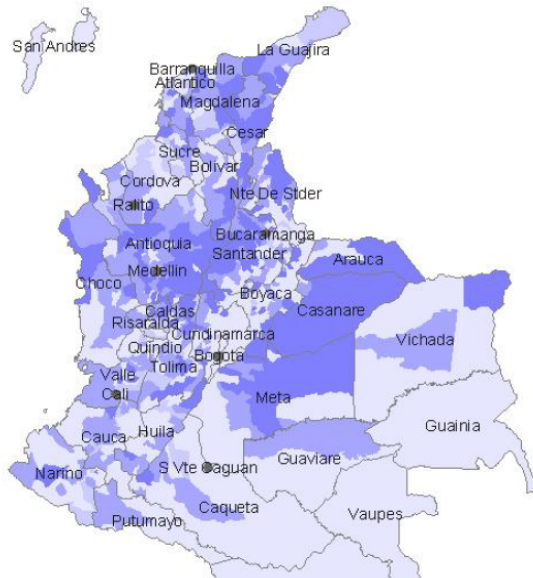
An Example of Region II: Ancient Greece

- Classical Greece experienced a sustained burst of economic growth and population expansion starting around 700 BC.
- Consider Athens. Recent scholarship (Ian Morris, Josh Ober) ties the roots of this to the emergence of inclusive economic and political institutions starting with the reforms of Solon in 594 BC:
  - economic: made enserfing an Athenian citizen illegal, established freedom of movement within Attica, implemented an egalitarian land reform.
  - political: assembly which all Athenian citizens could attend; created a Council of 400 equally representing the 4 traditional tribes of Athens. Although the chief executive offices were reserved for elites, their decisions could be challenged by anyone in front of juries which were composed of all classes.
- Consolidated by Cleisthenes in 508/7 BC
  - New Council of 500 chosen at lot from all of Attica. You had to be older than 30 but could only serve for a year and at most twice in your life (almost every citizen ended up serving once in their life).

Pluralism in Greece

- The most interesting aspect of Solon and Cleisthenes reforms were the institutionalization of social norms for controlling elites
- Solon's *Hubris Law* which made behavior aimed at humiliation and intimidation against any resident of Athens illegal.
- Cleisthenes *Ostracism Law*:
    - Every year the Assembly voted on whether there should be an ostracism. If at least 6,000 voted and 50% said yes then each citizen wrote a name on a fragment of broken pottery (an *ostrakon*, hence ostracism). Whoever got the most votes was banished from Athens for 10 years.
    - Fantastic device for disciplining elites who threatened to become too powerful and overthrow inclusive institutions (next slide).
    - A threat "off the equilibrium path" in the 180 years where the institutions functioned only 15 people were actually ostracized, but the threat was ever present.

Pluralism in Action: Ostracism of Themistocles
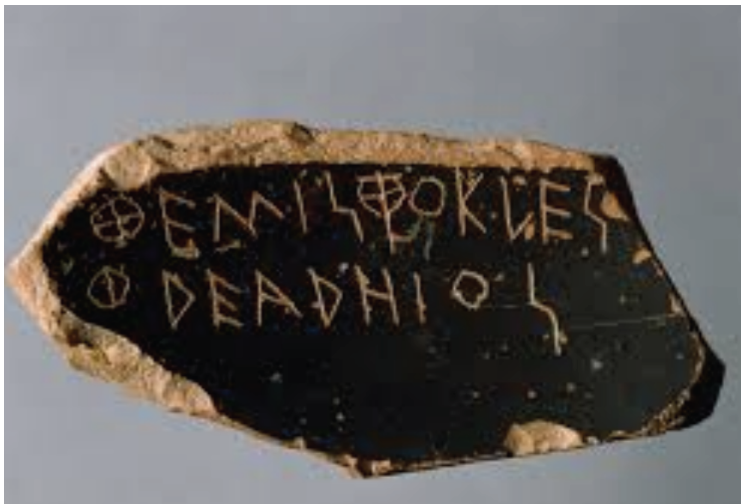
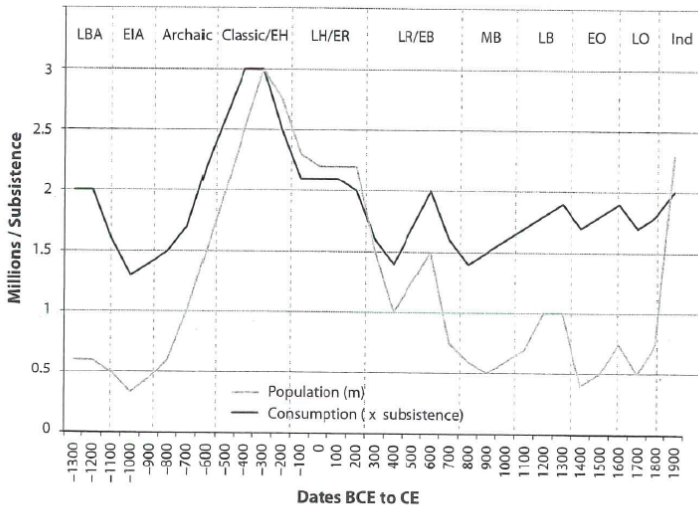# Consequences of Inclusive State Building: the Greek Boom

FIGURE 4.3 *Population and consumption estimates, core Greece, 1300 BCE–1900 CE.*

Inclusive State Building in England

- A similar pattern of inclusive reforms which did not quite stick and had to be reconfirmed happened in 17th Century England.
- The English Civil War of the 1640s
  - economic: abolition of domestic monopolies
  - political: abolition of the Monarchy and introduction of a Republic, introduction of the excise tax (which provided the fiscal base for the state for the next 200 years), state modernization.
- Consolidation with the Glorious Revolution of 1688
  - economic: foundation of the Bank of England, trade policies to support manufacturing but level playing field, facilitation of infrastructure, abolition of international trade monopolies (Royal Africa Company, East India Company)
  - political: emergence of constitutional rule and the dominance of Parliament, bureaucratization of the fiscal system.
- Followed by the Industrial Revolution.

A Participatory Absolutism

- Like those of Solon or Cleisthenes, those of Cromwell and 1688 build on a history of the co-evolution of state and society.
- Formation of the Tudor and Stuart state after 1485, 'Tudor Revolution of Government' 1530s, Church of England, establishment of a monopoly of violence and disarming of the aristocracy.
- Highly participatory. In December 1596 in Swallowfield, Wiltshire, a group of local people got together to compose a list of 26 resolutions.
- Included monthly meetings (resolution number 25 - "the whole company promesethe to meete once in every monethe") with elaborate protocol (resolutions 1-3). For example,

"first it is agre[e]d, That every man shal be h[e]ard at o[u]r metynge quyetly one after an other, And th[a]t non shall interrupte an other in his speeche,... & so in order, th[a]t therby the depthe of every mans Judgment w[i]th reason may be concedered."

Emergence of Broad-Based State Capacity

- There was also to be bureaucratized record-keeping. Resolution 11 read

 *"And th[a]t ther be a paper Booke to Regester all o[u]r doynges."*

- The resolutions concerned "wilffull & vyle synns" (resolution 25) which ranged from fornication and illegitimacy (resolutions 8, 13); insubordination and disturbance of the peace (resolution 15); petty theft, malicious gossip, wood-stealing, pride, dissent, and arrogance (resolution 18); improvident marriage (resolution 20); profanation of the sabbath (resolutions 22, 24); and drunkenness (resolution 23).
- Nobody authorized these people to do this and they were not elites, but they did run the English state too. In 1700 there were 50,000 parish officers at any one time (around 5% of adult males) and since there was frequent rotation of offices the number of people who had held office was considerably larger. By 1800 the figure was more like 100,000 people.

Inclusive State Building in England (continued)

- Many policy initiatives (like the poor laws) came from society, many state building initiatives were demanded, not initiated by national elites.

- E.P. Thompson emphasized the "moral economy" or 18th Century Britain, a nexus of social norms which elites had to respect or face riot and rebellion + social norms embedded in the common law.

When Do We See State Capacity? More Generally

Figure 2
Tax Revenue and Constraint on the Executive 1990-2000
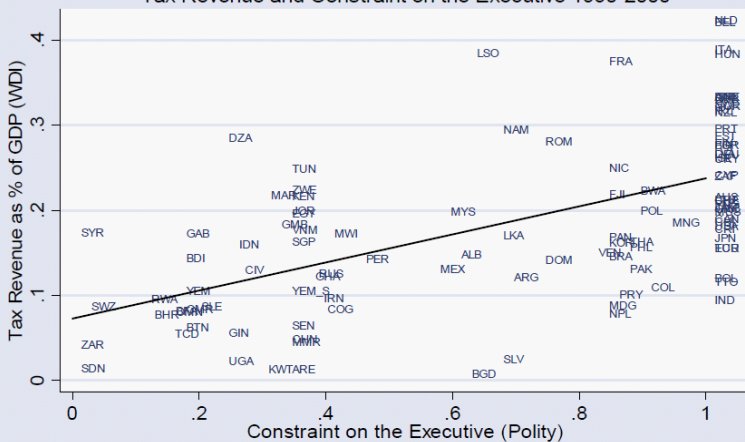
Understanding Region II

- In both the Athenian and English case, inclusive political institutions emerged out of a situation where both dimensions of inclusion, an effective state and pluralism, evolved at the same time with a very active civil society.
- In Region II, pluralism and state capacity emerged and evolved in a complementary fashion:
  - if power is broadly distributed and organized, then people are willing to concede authority and power to the state because they are confident they can control it (though collective action)...
  - but state formation feeds back onto society creating a denser, more integrated, stronger society...
  - which in turn allows the state to become stronger...

Barriers to State Building: Local Elites

- One simple battier against state building without pluralism is that those in control of the central state may wish to extend the reach of the central state to local economies.
- This would generally involve reforming and modernizing labor relations;
  - Central elites would be in greater favor of this than local elites because they would not be be "economic losers" from such reform.
  - Also because there are spillovers across regions—benefits of economic modernization in one area accrue to other areas through pecuniary effects.
- But this will generally be resisted by local elites.
- If local elites strong enough, then state building will not be attempted or will be limited.
- Example: PRI's state building project in Mexico and its limits in Chiapas and Oaxaca.

State Capacity Losers

- Another more basic reason for top-down regimes not building state capacity is related to the "political losers" mechanism highlighted above.

- Building state capacity (public services, bureaucratic machinery, courts, etc.) may impede the power of elites to rule for their own benefit, and even more importantly make mobilize further challenges against them.

- Colombian case: it's sometimes easier to control the local population through paramilitaries.

- Francis I, Hapsburg Emperor, reacted to the building of railways: "No, no, I will have nothing to do with it, lest the revolution might come into the country."

Why Do Inclusive Institutions Encourage State Building?

- John Brewer, *The Sinews of Power: War, Money and the English State, 1688-1783:* The English state became strong after the empowerment of Parliament.

- In fact, the same happened after the English Civil War, when Parliament created the excise tax and significantly reduced venal officeholding.

- Why?

- Most plausible answer: because that was when interests are present in Parliament came to believe that they could control state spending and taxes, and direct this spending according to their interests (e.g., enforcement of Navigation Acts).

- Thus:

$$\text{pluralism} \;\rightarrow\; \text{state building}$$

Modeling Consensually Strong States

- **Consensually strong states**: The state is powerful and has capacity largely because citizens have consented to state building.
- Acemoglu (2005):
  - These emerge under pluralism — when the distribution of political power is broad and effective.
  - The state is economically empowered because citizens (or groups thereof) know that they can replace those controlling the state if policies the verge significantly from their interests.
  - Potentially consistent with the first-order patterns in the data.

Political Bargains

- A similar dynamic might exist from state building to pluralism: if pluralism encourages state building, perhaps building better political institutions could be part of a state building strategy.

- Though following the War of the Roses, Henry VII started the process of state building, particularly restricting the power of the barons and lords, culminating in the militia law under Elizabeth putting their liveried retainers under centralized control, Henry VII and VIII still needed to prevent all the barons and other powerholders from rebelling.

- One interpretation of the empowerment of Parliament during this time is that this was a concession to these powerholders in the process of state building; "King in Parliament" as a Cromwellian strategy of state building (Elton, 1955).

- Thus possibly:

$$\text{state building } \rightarrow \text{pluralism}$$

Economic Foundations of Inclusive State Building

- In the Greek case, the transition from bronze to iron appears to have been important.
- Gordon Childe summarizes this as: "cheap iron democratized agriculture industry and warfare too".
- There were other technological changes with profound conclusions:
  - The emergence of writing. Bronze Age Greece had writing used primarily by the elite and the state for record-keeping. Around 800 BC, a new type of writing emerged and spread much more broadly in society.
  - Developments in warfare (possibly related to use of iron weaponry), which broke the increasing importance of hoplite workfare (by citizen soldiers). Polities that could field more hoplites (typically those with more citizens) had an advantage in warfare.
- Political leaders could not claim to rule by divine right in Greece, and there was no friction between the political elite and religion. Religious powers such as that of the Oracle of Delphi, was not controlled by political elites.

Economic Foundations (continued)

- Economic diversification intensified after the discovery of the Americas, and triggered broad participation in trade and mercantile activities (Acemoglu, Johnson and Robinson, 2005).
- There was a general absence of very high rents from holding political power because of limited natural resources (contrast to Early Modern Spain).
- Relatively weak monarchy (as exemplified by the signing of the Magna Carta of 2015).
- Almost total disappearance of servile and feudal labor arrangements, particularly after the Black Death.
- Economically developed and strong cities as a counterbalance against rural aristocracy.

States and Rights

- A more general mechanism of inclusive state building — not just ostracism or petitioning, not just parliaments.
- Civil society and certain "**generalized rights**" play a critical role of controlling and checking the power of the state, and thus making society more willing to accept the development of a strong state.
- In 1628, the English Parliament complained about the policies of James I with its "Petition of Rights".
- The word "rights" was a rallying cry for civil society to stop the royal encroachment of their privileges.
- This is in fact a more general version of the causal arrow from pluralism to state capacity:
    - A strong and organized civil society encourages state building.
    - An overlapping set of rights might be particularly important because this prevents the state from using its power against single group's interests (thus dominating society). Thus:

$$\text{rights} \rightarrow \text{states}$$

Rights and States

- Where do **generalized** rights come from?
- Why civil society and such a notion of rights develop in this way in some societies and not in others?
- If rights are most useful in preventing encroachment by concentrated power, there may be less impetus for them to develop without a state.
- In particular, many generalized rights are developed in defense of the state's power.
- There are certain types of rights in stateless societies and in societies without political centralization, but these tend to be not *generalized rights* (such as free speech, freedom of belief, women's rights, gay rights, etc.), but *"social role-dependent rights"* (e.g., the rights of slaves in the southern paternalistic equilibrium).
- Thus

$$\text{states} \ \rightarrow \ \text{rights}$$

Incentives for Extractive State Building

- *What explains "extractive state building" in Region III?*
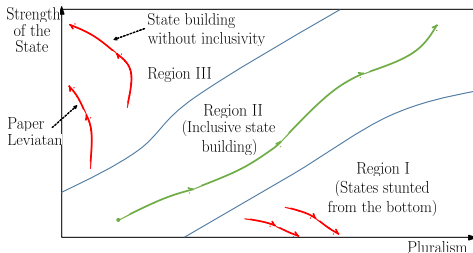
- State building will enable an individual or a group to become economically and politically more powerful.
- It might also be triggered as part of a "defensive modernization" project.
- But this will be constrained and discouraged by the considerations discussed above.

Growth under Extractive Political Institutions

- Though growth is much more likely under inclusive institutions, it is still possible under extractive institutions.
- Why?
  - The logic of extractive institutions: they have to produce some income and surplus to be extracted.
  - When relatively secure in their position, the elites may wish to increase the level of production in the economy to be able to extract more
  - Reforms, some type of "modernization," may be a defensive move against internal or foreign threats.
- But the success of growth under extractive political institutions is closely linked to **state building**.
- **Examples**: 19th-century Russia, Prussia, 20th-century Turkey and contemporary China.
- But we have already seen that this is not a prelude to the emergence of inclusive political institutions and pluralism.

Back to the Basins of Attraction

- A better way of thinking of the dynamics of pluralism/rights and state building is in terms of a "**balanced race**" as in Region II.
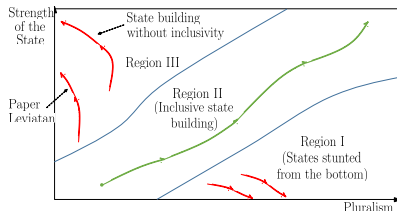
- If either one of state strengths or pluralism pulls ahead too far, it might make it difficult for the other one to ever catch up.
- This is exactly where the role of rights may come in: it co-evolves with states and it limits the abuses of the state.
  - so both parts of the argument developed above are important for this: **pluralism/rights are important for states, but states are important for pluralism/rights.**

Policy

- There may also be important lessons for policy here.
- Encouraging state building, at the national or local level, at the expense of civil society and even traditional rights, may backfire (e.g., Afghanistan, Somalia, Turkey).
- Similarly, promoting rights could play a key role in helping to make the process of state building work.
  - Recall that the language of rights has provided a tool to help build inclusive coalitions several historical examples.