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Effective States Matter
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When protesters take to the streets as we have seen in Spain and Greece recently, it is to criticize the effectiveness of their governments in managing the economy. It is a reminder that we rely on effective states in so many ways. Advanced states in Europe manage health care, education, retirement pensions as well as building roads, bridges and airports. The state is everywhere in our lives and at least as important as the market to our citizens. But had I been writing 100 years ago, the picture would have been very different. The major preoccupation of governments was with defence and little else. This transformative period of public action cries out for explanation and the history has many lessons for today's developing world.

There are three main dimensions to what modern states do. The first is providing goods and services where the market traditionally has done a poor job. For example, market driven health care works well for the rich, but the poor are frequently poorly serviced. The second is providing support for the market. Markets work best when contracts are enforced and property rights are clearly defined. And the state can provide the infrastructure for this. The third is raising tax revenue – the needs of government are best served by a broad-based tax system which is properly enforced.

None of these can be taken for granted and many parts of the developing world have governments which perform poorly on all three dimensions of state effectiveness. And this clusters too with poverty and, in many cases, with endemic violence (much of perpetrated by the state itself).

But each state has its own story – the problems that beset and challenge India are different from those that beset Rwanda. We should not be looking for a one-size-fits-all approach. However, that does not mean that we cannot benefit from using a framework which allows us to think about how incentives matter in creating effective states and what shapes those incentives. And, for that, the politics and economics have to be brought together. It is useful, therefore, to begin by thinking why some states seem to work so much better than others.

Historically, many states were governed by monarchies or other forms of elite rule. And a monarch who was going to be around for a while could gain from having a prosperous and peaceful realm. The modern incarnation of this idea is China's communist party which is also taking a long-run view, banking on remaining in power in future. And in recent history, the development paths of Taiwan, Singapore and South Korea look similar. But one needs to be careful in jumping to the conclusion that autocracy and development go together. The evidence suggests that autocratic government has among the best and the very worst performing economies. Moreover, the human cost in terms of repression as ruling elites cement their power can be immense. The cases where autocracy has worked are often those where accountability has been created internally and where economic success is the focus. China is a case in point where promotions of regional governors and

party officials have been based on performance. Growth has been the mantra that shapes the regime and the state has been highly effective promoting it. More generally, the rulers of developmental states may understand that they need to create states that spend wisely and tax fairly. That said, there is typically little prospect of the mass of citizens having much say in this. And the history of South Korea and Taiwan suggests that moving away from autocratic governance is a logical next step, however difficult managing that transition can be.

But developmental autocracy has limited appeal. And it is not the path that much of Europe and North-America have tried to follow in developing their states and economies. But a common error is to home in on elections alone as the most visible feature of the politics of modern states. By facilitating the peaceful transition of power, elections are important. But just as important is the way institutions make leaders subject to the rule of law and impose constraints on their power through Parliamentary process and a free and independent media. There needs to be a greater focus on how to create such constraints. Elections without appropriate constraints often become a source of instability since they become a scramble for the spoils of public office. This often leads to political violence and electoral fraud.

So in spite of the recent success in China and elsewhere, I believe that strong executive constraints provide the best odds for effective states to emerge over the long haul. And there is evidence for this from the historical record. Constraining executive power helps to focus government on common interests rather than pursuing the interests of a narrow elite. Strengthening the state then becomes a common purpose activity encouraging the development of collective provision of goods and services, market supporting activities and a fair and efficient tax system. Moreover these three aspects of state development can be mutually reinforcing.

But what can we say about those parts of the developing world where such institutions have not developed? The focus has to be on creating stronger constraints on executive power and building an effective state. And while there is increasing recognition of this, the legitimacy of international efforts is compromised by the fact some members of the G8, and especially the G20, seem unwilling to recognize these issues at home.

However, as the Arab Spring has illustrated so vividly, indigenous political action is often far more important than international intervention. There is a role for international support. But I am sceptical that should take the form of placing bets on individual leaders who, so frequently, disappoint. The focus must be on institutions not individuals. While history is often told through a series of accounts of pivotal leaders, their legacy is more often in the form of changes in norms and institutions. The lessons from history need to be viewed through this sharply focused analytical lens. The fact that we have created effective states is then no great mystery. Extending the lessons from the experience of the twentieth century to the remainder of the world is one of the great challenges of the twenty-first.

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