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A COMMENT ON:
“*State Capacity, Reciprocity, and the Social Contract*”
by Timothy Besley

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In this note, I discuss avenues for future research stemming from Besley’s [this issue] theoretical approach on the interconnections between civicness, institutions, and state-fiscal capacity. First, I lay down some ideas on how one could extend the framework to model fragility traps that characterize many low-income countries and study issues related to nation-building, conflict, and heterogeneity across space and ethnic lines in the provision of public goods. Second, I discuss the relevance of the approach for the analysis of authoritarian populism that is spreading in developed countries and emerging markets.

KEYWORDS: Institutions, states, social capital, public goods, fractionalization, populism.

1. INTRODUCTION

WHY DO STATES EMERGE? Why do states often consolidate, but sometimes disintegrate? Why are some states fragmented, often with extractive institutions, while others appear cohesive, with inclusive institutions? Such questions have baffled scholars since classical times. Plato famously stressed the role of *arête*, civic virtue, in the ideal republic. Aristotle argued that each political system has a developmentist facet, where constitutions-institutions serve the public interest, and a perverted facet, where not everyone benefits from public goods. These ideas were reborn by the worldly philosophers of the Enlightenment, who were writing at a period of state formation and amalgamation.

As Besley (2020) puts it, one can distinguish between two extreme views of statehood. On the one hand, the Hobbesian approach views the state as means of constraining people’s worst atomism in their *state of nature*, what he coins as “*Warre*”; in turn, citizens place constraints on the state Leviathan. Formal institutions, such as executive constraints, safeguards on property rights, and civil liberties are, therefore, *sine qua non* conditions for an efficient state. On the other hand, John Locke (1690) and Jean-Jacques Rousseau (1762) take a social contract viewpoint where citizens pass some rights, such as the monopoly of violence and the provision of public goods, to a benevolent government, accepting, in turn, obligations. Efficient states emerge when citizens engage in politics, trust state institutions, and check the government.¹ Civicness and social capital are therefore necessary.

Classical economists such as Adam Smith, Karl Marx, and Joseph Schumpeter stressed the interconnections between economics, politics, institutions, and trust. Nonetheless, there was not much research on these issues for most of the 20th century. Nevertheless, there has been a notable reversal with an explosion of research in the past decades.

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¹This is a very brief and coarse description. For example, Hobbes also employed a contractarian view of government. There are important differences in the social contract ideas of Locke, Rousseau, and Kant. See also Rawls (1971).

A vibrant research agenda, in which Tim Besley is at the forefront, re-examines these interrelationships using eloquent theoretical models, “reduced-form” and more structural econometric approaches, often relying for identification on historical experiments.²

2. BESLEY (2019)

Tim Besley’s Presidential Address in the *Econometric Society* fits this research strand. Drawing on work with Thorsten Persson, Besley (2020) develops a simple, yet rich, theoretical paradigm that stresses the complementarity between the cohesiveness of state institutions with civicness, modeled as quasi-voluntary tax compliance, where tax revenues are used to fund public goods. Besley (2020) formalizes ideas found in Levi’s (1988) influential historical analysis on the evolution of taxation and statehood, as well as leading political thinkers stressing the role of civic participation and social capital, such as Lipset (1960) and Puttnam (1988), on institutional and economic development.

2.1. Model

Besley (2020) develops a model of intrinsic reciprocity where trust and values are internalized into agents’ preferences (Sobel (2005); see also Bisin and Verdier (2000, 2001) and Tabellini (2008)). The elite decide on public-good provision or transfers; citizens pay taxes that fund government expenditures. Citizens are either “virtuous,” deriving positive utility from tax compliance, or “materialists.” Citizens’ utility is increasing in income and the (observable) public good. Citizens decide the proportion of income to hide; tax compliance is costly, as governments invest in detection. The elite set the income tax rate and decide on whether to spend on the public good or transfer revenues to itself or the citizens. Institutions constrain the share of government expenditure that the elite can appropriate. Hence, tax compliance, states’ fiscal capacity, and public goods are endogenously determined, driven by the share of civic-minded citizens, detention costs, and executive constraints. In the dynamic setting, civicness evolves as citizens’ values and actions respond to policies (public good provision or transfers), which in turn foster or dilute civicness. The model yields multiple equilibria. When initial conditions are favorable (with constraints on elites, costly tax avoidance, and a high share of civic-minded citizens), the elite choose the public good, which further enhances civicness, sustaining the social contract, and ensuring a “cultural fitness” of the virtuous citizens. In contrast, if institutions leave the elite unconstrained or/and the society starts with a large fraction of materialist citizens, there is public good under-provision, as government expenditure is tilted towards transfers (to the elite or the citizens). There is also a tipping (unstable) equilibrium that shapes convergence to the two polar steady states.

2.2. Implications

The model yields two intuitive implications. First, there are complementarities between civicness and (cohesive) institutions, a theoretical result that is in line with cross-country and regional correlations (e.g., Tabellini (2010), Alesina and Giuliano (2015)). Second, the common interests of the elite and the *polloi* develop state capacity. Whether this results in public goods (and investments in fiscal capacity) or inefficient transfers depends

²On the role of civic virtue and social capital, see Algan and Cahuc (2014), Durlauf and Fafchamps (2005), and Guiso, Sapienza, and Zingales (2011).

on initial share of civic-minded citizens and institutions. There is not much empirical evidence here; but this implication may explain why “external wars” cultivated state capacity in Europe, but not in Latin America.

3. OPEN ISSUES

Space constraints prevent me from delving into the fascinating extensions and the model assumptions. Thus, I turn to two core ideas that stem from the paper (as well as previous work of Besley and Persson (2009, 2011)). The first relates to state fragility that characterizes many low-income countries. The second regards the wave of authoritarian populism that haunts high- (and middle-) income countries.

3.1. *Fragile States*

As Besley, Cameron, and Kaberuka stress in their *Report on State Fragility, Growth, and Development*, low-income countries are subject to a fragility trap: underdevelopment reinforces civil conflict which in turn weakens state legitimacy and capacity, which further buttress poverty (see also Migdal (1988)). State capacity has many origins, geographic, historical, and economic, issues that Besley and Persson (2011) discuss in detail. In addition, ethnic fractionalization and polarization, as well as within- and between-ethnic-group inequalities, seem to be fostering and sustaining civil conflict, under-provision of public goods, and poverty (e.g., Esteban and Ray (2011), Montalvo and Reynal-Querol (2005), Alesina, Michalopoulos, and Papaioannou (2016)).

Let me zoom in to Africa, where state capacity is weak: income taxation is almost absent, public goods provision is minimal, and many governments cannot monopolize violence. Case-studies, narratives, and econometric works suggest that as African states failed to deliver and African elites siphoned state revenues to Swiss bank accounts, citizens’ ethnic (and religious) identities strengthened. Though there is non-negligible variation across countries, Afrobarometer survey data suggest that around a third of the population identifies either solely or predominately with the ethnicity rather than the nation,

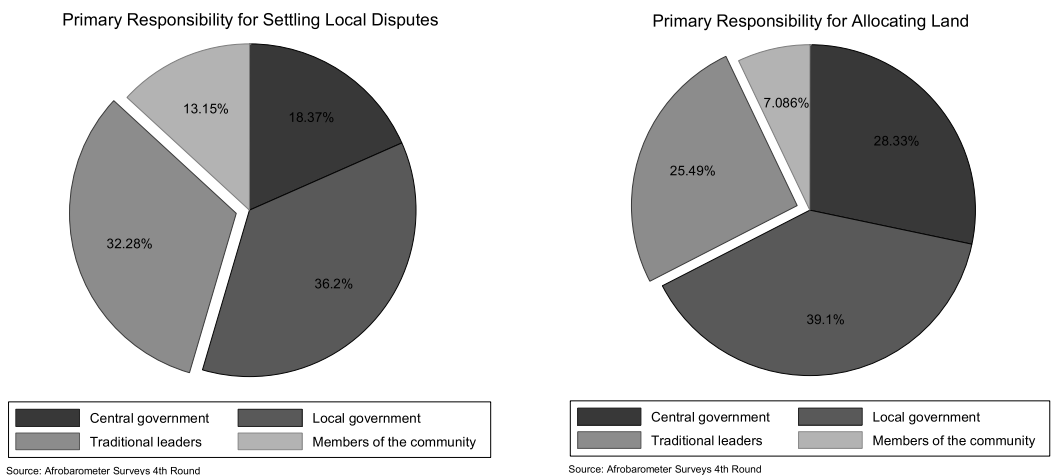


FIGURE 1.—National-ethnic institutions [settling disputes and land allocation]. Source Afrobarometer Surveys Round 4; taken from Michalopoulos and Papaioannou (2015).

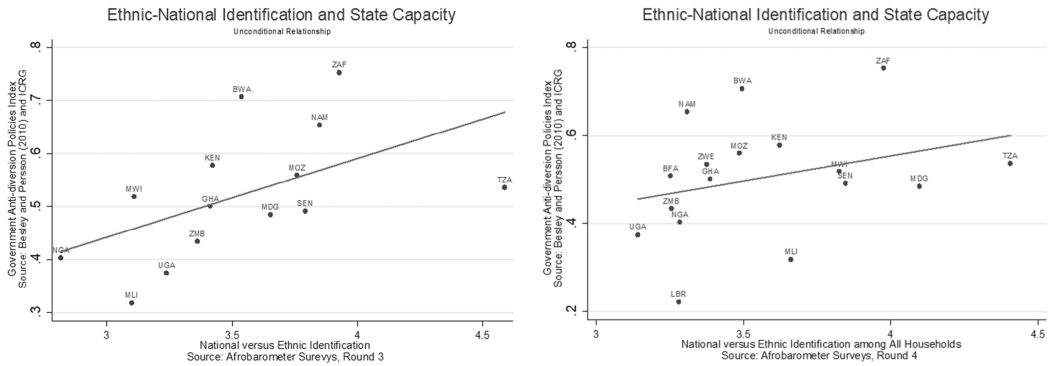


FIGURE 2.—State capacity and ethnic-nation identification. Source: Afrobarometer Surveys Rounds 3 and 4; taken from Michalopoulos and Papaioannou (2015).

with most Africans identifying equally with the nation and the ethnicity (Michalopoulos and Papaioannou (2015)). Ethnicity is not just identity. Ethnic customary and formal institutions are present, especially in the countryside, traditional authorities provide public goods, and chiefs settle disputes and provide security. Figure 1(a)–(b) tabulate Afrobarometer Survey data covering 16 Sub-Saharan African countries and show that traditional ethnic leaders have significant power in allocating property and dealing with disputes. Acemoglu, Reed, and Robinson (2014) and Baldwin (2016) present case evidence on the role of chiefs and ethnic leaders in the provision of public goods in Sierra Leone and Zambia, respectively, while Amodio, Chiovelli, and Hohmann (2019) present pan-African evidence on the interplay of ethnic and national institutions and the delicate relations between national politicians and local chiefs.

State capacity mirrors ethnic identification, a pattern that loosely speaking accords with Besley’s model. As Figure 2 illustrates, institutional quality correlates with the share of the population identifying with the nation as compared to ethnicity. It seems that in (parts of) Africa, the “social contract” is between citizens and ethnic leaders, who, following deeply rooted ethnic norms and institutions, provide basic public goods. Ethnic identification and reliance on ethnic institutions and traditions both weaken state capacity and reflect governments’ inability to provide basic public goods.

It would be interesting to expand the model, perhaps bringing in elements from Esteban and Ray’s (2008, 2011) classic work on civil conflict, allowing for multiple providers of public goods (and taxation), and heterogeneity on public good preferences, perhaps emerging from occupational specialization across groups. A related possible extension is adding competition among groups for national resources, to think about ethnic favoritism, which appears pervasive.

Another avenue is thinking about *spatial* heterogeneity in state capacity, public goods provision, and reach of national institutions. Building on Herbst (2000), in Michalopoulos and Papaioannou (2014) we show that the penetration of national institutions decays and ethnic identification rises when one moves away from the capital. Effectively, the patterns in Figure 1 have a spatial dimension, as segregation is quite high in Africa and it correlates negatively with the quality of government (Alesina and Zhuravskaya (2011)).

A related avenue is thinking about top-down nation-building policies, issues that are important but under-researched (Bazzi, Gaduh, Rothenberg, and Wong (2019) is a notable exception). As Figures 2(a)–(b) illustrate, ethnic identification among African countries is the lowest in Tanzania, reflecting the nation-building policies of Julius Nyerere, who ex-

plicitly tried to mute ethnic norms (see Miguel (2004)). This is important as many African countries did not develop organically, being colonial artifacts, with peculiar sizes, heterogeneous geography, and straight borders splitting many ethnicities (e.g., Alesina, Easterly, and Matuszeski (2011), Michalopoulos and Papaioannou (2016)). As education is expanding in the continent, it is thus important to understand its role in spurring national identities, which in turn may allow African countries building state capacity.

3.2. *On Populism*

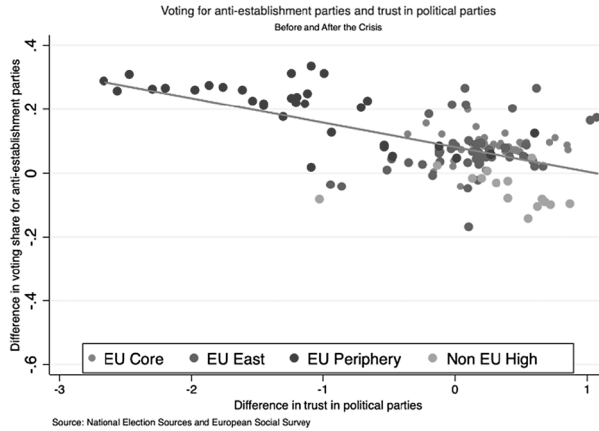
Besley (2020), being an optimist, argues (rightly in my view) that an indirect benefit of democratization may be the cultivation of fiscal capacity and social/civic capital that in turn helps consolidate representative institutions and promote growth. Acemoglu and Robinson (2019) make similar points in their *Narrow Corridor* theory of liberty and development. It may be interesting testing this conjecture that links democracy to democratic beliefs in a before-after “control”–“treatment” setting, like the one in Acemoglu, Naidu, Restrepo, and Robinson (2019) and Papaioannou and Siourounis (2008), who document positive within-country correlations between democratization and output (growth). However, the mirror image of Besley’s argument is that political instability and reversals to autocracy can be particularly destabilizing, as they deplete societal civic capital.

Nowadays, many high-income countries with strong and inclusive institutions experience a surge of authoritarian populism (see Guriev and Papaioannou (2020) for a review). Viewing populism through the lens of the Besley (2020) theory is alarming. First, “*populism undermines core institutions, while authoritarianism actively corrodes principles and practices at the heart of liberal democracy*” (see Norris and Inglehart (2018)). Second, there is a significant rise of distrust to government, political parties, courts, and other core institutions of modern capitalist democracies, aspects that relate to nationalism and (especially) far-right populism (e.g., Algan, Guriev, Passari, and Papaioannou (2018)). Besley (2020) reports some individual-level regression results on this using World Value Survey data. Figure 3(a)–(b) illustrate a similar pattern across European regions. The figures plot before-after crisis changes in the voting share of anti-establishment, mostly populist parties (as classified by political scientists who go over party manifestos), against trust in the political and the legal system, as recorded by the European Social Surveys. These correlations do not imply necessarily a causal effect; and many recent papers link both distrust and populism to secular shocks, like trade and automation, or the recent crisis (e.g., Autor, Dorn, Hanson, and Majlesi (2019), Frey, Berger, and Chen (2019), Algan et al. (2018), Guiso, Herrera, and Morelli (2019)).

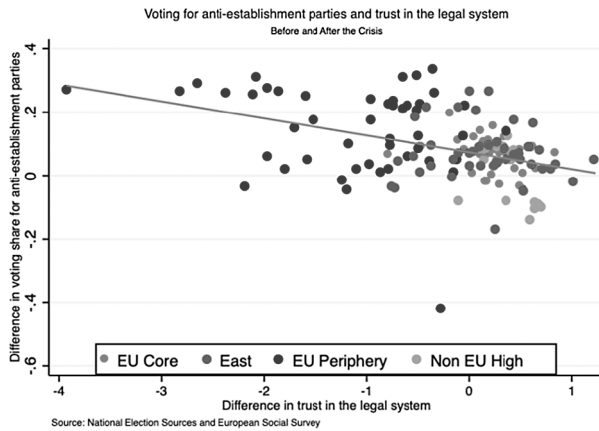
Besley’s model suggests that this drop in trust/civicness and/or the accompanying “attack on institutions” by populist leaders reinforce each other. If the shock is large enough then the society may quickly move from the pro-development steady state, with cohesive institutions, public goods provision, high state capacity, and civic-minded citizens, to the low-development one. While many argue that industrial Western countries are far from this “tipping point,” this is not necessarily the case for middle-income economies with moderate levels of fiscal capacity and intermediate levels of executive constraints and social capital, like Hungary, Poland, and Turkey. It is thus worthwhile extending the model to think more carefully about these issues.

4. CONCLUSION

Besley (2020) and Besley and Persson (2009, 2011) have developed an elegant theoretical paradigm to think about the origins and interconnections of institutional quality,



(a)



(b)

FIGURE 3.—(a) Populism vote and political trust across European regions. (b) Populism vote and legal system trust across European regions. Source: Voting Records & European Social Surveys.

fiscal capacity, public goods provision, and development. This work has formalized important insights in social sciences and allowed for deeper thinking of some of the most fundamental issues in social sciences. Nonetheless, more work is needed, as many issues are still open. First, research on civicness and social capital has mostly identified their long-run historical and geographic origins; there is not much work on the role of specific policies and interventions (see, e.g., Algan, Cahuc, and Shleifer (2013) on the role of education system practices). Second, quasi-experimental studies should tease out the impact of institutional shocks on civicness and vice versa. Third, more micro work is needed to understand the vertical and horizontal transmission of formal and informal rules. Fourth, policy impact studies (and perhaps randomized control trials) should explore the role of the underlying cultural norms and institutions in the efficacy of reforms and targeted interventions.

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