



## **MOOC SCRIPT: STATE-BUILDING: OUTSIDE IN**

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### **1. INTRODUCTION**

For almost all of the 200,000 years that humans have been on Earth there was no development or very limited sporadic development. Conditions were stagnant and life was nasty brutish and short. Small-scale, local violence was pervasive. Life expectancy was short—in the 20s or 30s. Most children died before they reached the age of five. Political power was in the hands of a small number of people all of whom were supported by private armies. Until about 1800, per capita income was low and stagnant in almost all parts of the world. In 1800, the variation in per capita income was relatively small compared with the present, about 4-to-1 between the richest and poorest countries. Today it is more than 50-to-1.

Since 1800, life in a small number of polities in North America, Europe, and Asia has been transformed. Life expectancy is in the 70s and 80s. Infant mortality rates are low. Most citizens never experience any kind of violence—only a tiny percentage of the population dies a violent death.

Individuals are free to accept or leave any job. Any individual can start a business or create an organization, including political organizations. Most economic transactions are determined by private entities—individuals or firms—although within a framework of state regulation that includes third-party enforcement of private contracts.

The security forces, the military and police, are subject to civilian authorities. All individuals, including those at the very top of the political system are subject to the rule of law. The laws are made by a constitutionally-specified legislative process. Bribery of public officials is rare. In the public sector, hiring is constrained by civil service rules. Political leaders are chosen through free and fair elections, and they leave office when they are defeated at the polls.

What has happened in the OECD world is, however, the exception not the norm. In most places most people are still poor; the legal system is accessible to only a few; control of the means of violence not votes determines who runs the country; those in official positions can act arbitrarily

## 2. THEORIES OF DEVELOPMENT

Over the last several decades, the most important attempts by scholars to understand how and why development takes place have been informed by three different analytic approaches: rational choice institutionalism (or “rat choice” institutionalism), modernization theory, and institutional capacity. Each is informed by a different causal logic. Rational choice institutionalism focuses on the strategic calculations of political elites. Modernization theory emphasizes the way in which economic and social development increases the likelihood if not the inevitability of consolidated democracy. Analysts who focus on institutional capacity emphasize that without security and stability, which can most effectively be provided by the state, development is impossible.

Each approach suffers from some major gaps. Modernization theory cannot explain why economic development occurs in the first place. Institutional capacity offers a diverse—perhaps too diverse—set of explanations for why capacity might grow, but fails to explain why greater capacity would lead to growth and development rather than extortion if not pillage by rulers. Rational choice institutionalism, which relies on path dependency, essentially idiosyncratic changes and subsequent lock-in, denies the possibility of confidently identifying structural factors that guarantee a transition to high levels of prosperity and consolidated democracy. More important, rational choice institutionalism has no explanation for transitioning polities.

Of the three approaches reviewed here modernization theory is the most widely recognized, thoroughly examined, and fully elaborated. Modernization theory contends that political transformation and democratization result from social transformations and economic growth that are the result of technological change and higher factor inputs. Urbanization, higher levels of literacy, and industrialization lead to social mobilization, attitudinal change, and a larger middle class. A larger middle class is more tolerant, more accepting of diverse political perspectives, more willing to compromise, and more likely to reject extremism. Modernization makes individuals more capable of self-expression and more willing to engage in political activities. Greater wealth makes it possible to adopt a longer time horizon and makes the rich more willing to accept wealth transfers to those that are poorer.

In a more complex social and political environment inhabited by a better-educated population, class conflict is mitigated.

For analysts focusing on institutional capacity, the key challenge for political life is order, and order can only be achieved through institutions that are adaptable, complex, autonomous, and capable of coercion. Without an effective government there can be no development of any kind.

For adherents of the view that state capacity is the key to development and modernity the fundamental analytic question is: how can state capacity be increased so that the gap between *de jure* state responsibilities and what the state can actually do is decreased, and so that the ability of the state to respond to, or at least effectively control, demands that are emanating from a more socially mobilized population, is enhanced?

Rational choice offers a third perspective on the trajectory of political and economic development. Whereas modernization theory emphasizes social and economic change leading to political transformation, and institutional capacity theory focuses on the development of central state institutions that can effectively control violence, extract resources, provide some collective goods, and perhaps educate and socialize subjects, rational choice sees development principally as the result of self-interested decisions taken by elites, especially the elites that control the instruments of violence.

Getting to Denmark or Norway is only possible if elites are willing to create institutions that constrain their own freedom of action. Full development can only occur if institutions are both effective and inclusive rather than extractive. Institutions must open up opportunities for all (or almost all) members of society; encourage, rather than frustrate individual initiative; and limit rent-seeking by elites. The great mystery is why elites would ever create such institutions, why those who control the means of violence within a polity would ever agree to constrain their own freedom of action? Why would rulers ever tolerate or accept social and political change that would undermine their own ability to stay in power? In human history present day Somalia is much closer to the modal state than Norway.

The engine of change for fully developed capitalism is what Schumpeter called creative destruction. Creative destruction, technological change that upends the economic order, is inescapably disruptive for the political order as well as the economic system. Unconstrained elites will never allow creative destruction because it would undermine the social and economic basis of their own power.

History is filled with examples of situations in which violence-wielding elites have crushed technological, social, or economic changes that might have threatened their own power. One graphic example is China at the beginning of the 15<sup>th</sup> century. China had the most formidable sea-going fleet in the world, ships that were four times larger than anything in Europe, and many more of them. But the Chinese treasure fleet, which had reached down the east coast of Africa was ordered to be destroyed by the Emperor thirty years after it had first sailed. Investment and technological innovation—the drivers of economic growth—can only flourish in a polity where the holders of state power cannot act arbitrarily.

Each of these theories has important gaps. Modernization theory cannot explain why economic growth begins in the first place. Institutional capacity arguments cannot explain why political elites in strong states would ever encourage changes that could weaken their grip on power. Rational choice institutionalists do not provide a systematic or predictive explanation for why the transformation from exclusive or closed-access to inclusive or open-access orders might occur. More important rational choice institutionalism does not provide clear guidance for how to understand the variety of natural or exclusive orders. The world is not perfectly bifurcated between well-functioning, rich, consolidated democracies; and poor, closed-access, autocracies. There are polities in the middle and understanding where in the middle a particular polity might be is critical for identifying the kinds of policies that external actors might most productively follow in different countries.

What we can conclude with confidence is the following: Modernization theory has shown that consolidated democracy is much more likely at higher levels of income. Institutional capacity approaches show that human societies are not condemned to anarchy. Political elites have often, although not always, been able to concentrate power and establish order. Rational choice institutionalists have confirmed that political elites use power primarily to serve their own interests; to protect their own positions in limited access or exclusive orders, they may sometimes implement policies that improve the circumstances of others in the society as well, but only under exceptional circumstances will they tolerate or be forced to accept changes that would undermine the social and economic basis of their own power. Only in open-access or inclusive orders do elites have an interest in supporting policies that benefit a broad spectrum of citizens.

### **3. POLICY IMPLICATIONS: CLOSED POLITIES**

Each of these theories has different implications for policy. External actors can only be successful if their incentives are aligned with those of key national actors. Incentive alignment depends first on the objectives of the intervening state; a basic distinction is between actions designed to enhance the security of the intervening state by, for instance, keeping a friendly ruler in power, and policies whose goal is to alter institutional structures in the target state.

If interest alignment is the necessary condition for success the opportunities to improve conditions in poorly functioning closed access polities are limited. First, in any polity where political leaders stay in power through rent-seeking activities that generate revenues to pay off a narrow group of followers, promoting democracy is a fool's errand. National leaders in such polities will not accept political changes that could undermine their own base of support. The alternative to staying in power in such polities is exile, death, or oblivion. The Wilsonian project that has played some role, with varying degrees of prominence, in American foreign policy since the end of the First World War cannot succeed in such polities.

Second, attempts at building institutional capacity understood as creating Weberian rational legal bureaucracies through technical assistance or the provision of material resources will also fail in such polities and for essentially the same reasons. Rulers will be intent on protecting their rent-seeking opportunities—exactly the kind of opportunities that rational-legal bureaucracies are designed to eliminate. Rulers will subvert or reject external efforts that limit their ability to provide direct benefits to themselves or to those groups whose backing they need to stay in power.

There are, however, at least three policy arenas in which the interests of external and national political leaders might be aligned—even in polities governed by rent-seeking elites with a narrow base of support. First, external actors might be able to support security forces that help these elites stay in power. By providing resources and training for the police and military they could strengthen the position of national leaders

Second, external actors might be able to provide support for policies, not necessarily institutions, that provide benefits for the population as a whole but do not constrain rent-seeking opportunities. Health is the most obvious example. Although many countries have remained mired in poverty, life expectancy has risen in almost all countries over the last 30 or more years. Smallpox has been eliminated. The last case occurred in Somalia in 1977. The provision of simple oral rehydration therapy has saved the lives of millions of children around the world.

Third, even where political elites use rent-seeking to pay off a small number of key supporters and repress independent organizations, external actors might be able to support some policies that would be consistent with economic growth. Political rulers that are highly dependent on foreign assistance might conclude that they are better off accepting some institutional and policy reforms that promote growth rather than risk losing foreign assistance. There is some evidence that this has been the case in some post-conflict environments.

External actors could increase economic growth in natural/limited access orders by adopting policies that would allow actors in such states to more fully participate in the global market by, for instance, reducing tariffs or guaranteeing foreign investments. Such opportunities might be acceptable to political elites in target states because they increased rent-seeking opportunities as well as increasing economic pay-offs, at least for some.

Rent-seeking elites might be willing to accept economic growth resulting from some outsourcing of governance to transnational or international actors if it provided them with some economic pay-offs. Bilateral investment treaties (BITs) offer the most prominent example. These treaties increase foreign investment by providing for dispute settlement by international arbitration panels whose decisions can be enforced in third party courts.

Thus, in limited access/exclusive polities the opportunities for external actors are limited. At best, they can aim for good enough governance in which there is reasonable security, some opportunities for economic growth, and possibly protection of core human rights associated with the physical integrity of the individual.

#### **4. POLICY IMPLICATIONS: TRANSITIONING POLITIES**

In transitioning polities, there are more opportunities for external actors to influence political and economic developments. Transitioning polities are ones in which there are some incentives for some members of the elite to accept greater democracy, accountability, and bureaucratic efficiency and competence. These individuals would benefit from more open institutions in the political and economic spheres. External actors could support those elements within a target polity that are pressing for greater openness. There can be rule of law—at least for the elite—and centralized control of security forces. There can be alignment between the incentives of internal and external actors that are supportive of greater openness. A wealthy industrialist who has benefitted from protectionist measures secured by political payoffs might conclude that he could make even more money if he had access to international markets that could only be obtained by abandoning domestic protection. Members of the political elite might conclude that they could

win free and fair elections and eliminate the danger that they could be violently overthrown. Bureaucrats with one foot in an exclusive domestic polity and another in inclusive or open international organizations would find it easier to introduce rational legal reforms because the costs of failure, perhaps moving back to Potomac, Maryland, would not be high.

In transitioning polities there are a wide range of policies that external actors might pursue. To support free and fair elections external actors could provide technical assistance related to the mechanics of elections, election monitors, and advice regarding the formation of political parties. To support the rule of law external actors could provide information regarding constitutional options, training for police and judges, technical assistance for courts; model civil, criminal, and commercial codes; and educational opportunities for lawyers. To promote economic growth external actors could provide loans and grants, build infrastructure, and enhance access to their own markets by reducing tariff and non-tariff barriers. To improve accountability support could be given to civil society organizations, and technical assistance could be provided to enhance transparency in government spending.

In transitioning societies the whole panoply of policies that have been deployed by external actors could be consequential. In natural, closed access or exclusive polities most of these initiatives would be inconsequential or counter-productive, because their intended impact would be subverted by rent-seeking elites—and because resources provided by external actors would encourage higher levels of corruption.

## **5. TO SUM UP...**

Thus, for policy, what is clear is that the hundred or so countries at the bottom of the income scale are not candidates for democratization or for policies designed to build Weberian institutions.

For transitioning polities, external actors can do much more to encourage political openness and economic growth.