

Politics and the Endogenous Evolution of State Capacity



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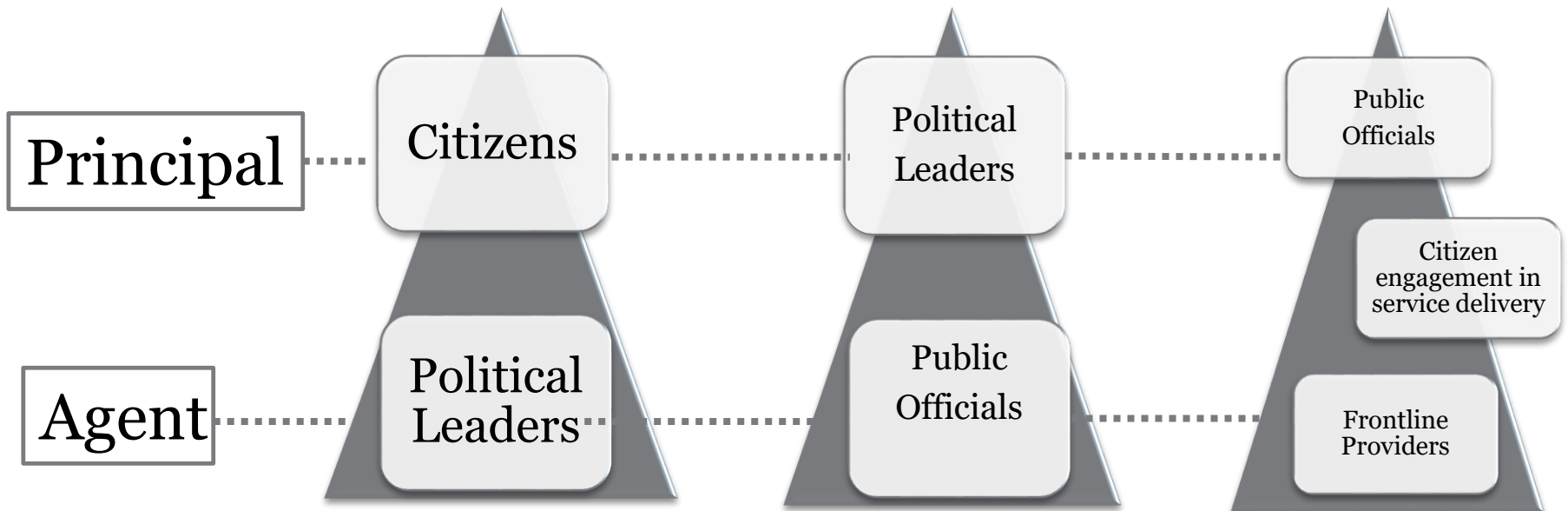
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What the research on governance says



Politics casts a long shadow on the principal-agent relationships of government, through 3 channels:

1. Recruitment or selection
2. Incentives, career concerns
3. Behavioral Norms



How does state capacity come about?

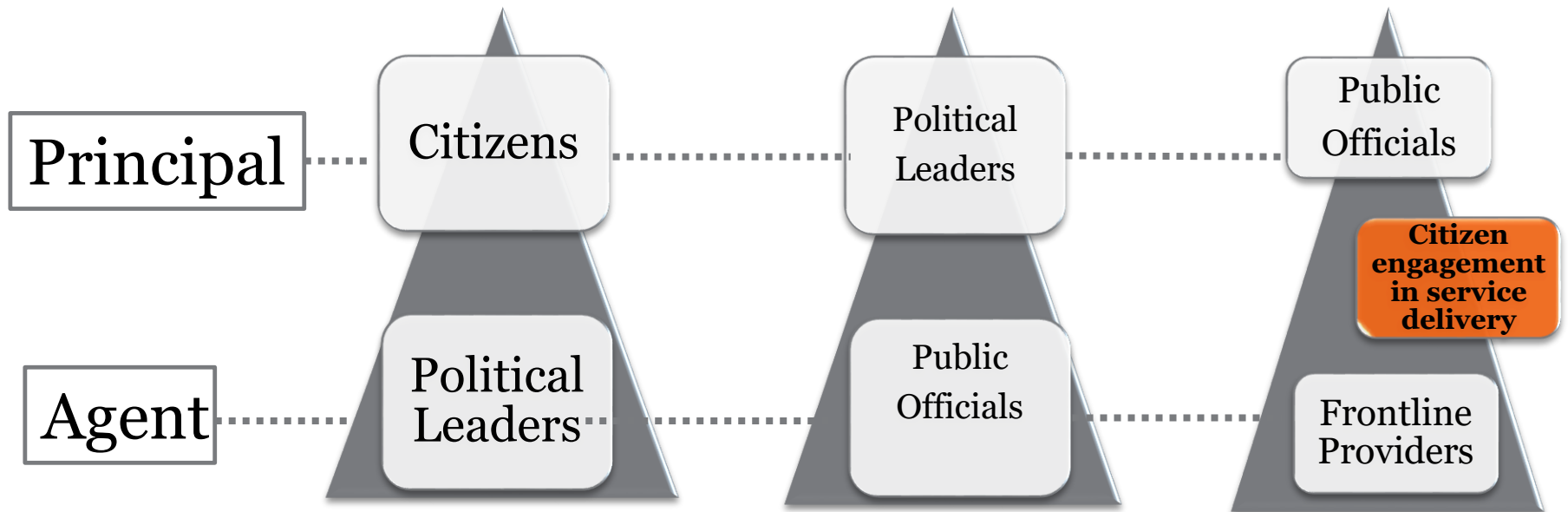


- Through endogenous changes in political engagement
 - Rise in demand for common-interest public goods explains: Reforms in post-Industrial Revolution UK; Progressive Era in the US; Emergence of fiscal capacity
 - Persistent effects of earlier history of inclusive political institutions
 - Incumbent leader's fear of losing power is critical for institutional change
- Effective institutions are more likely to be homegrown, using local knowledge and tailored to local contexts
 - *Political engagement is the “meta” institution that brings about other institutional changes*

What external development actors focus on



- Externally-led capacity building and encouragement of citizen participation in service delivery
- Pursuing so-called “short route” to accountability (WDR, 2004), but research since suggests it’s a misnomer



Implications of research for external actors



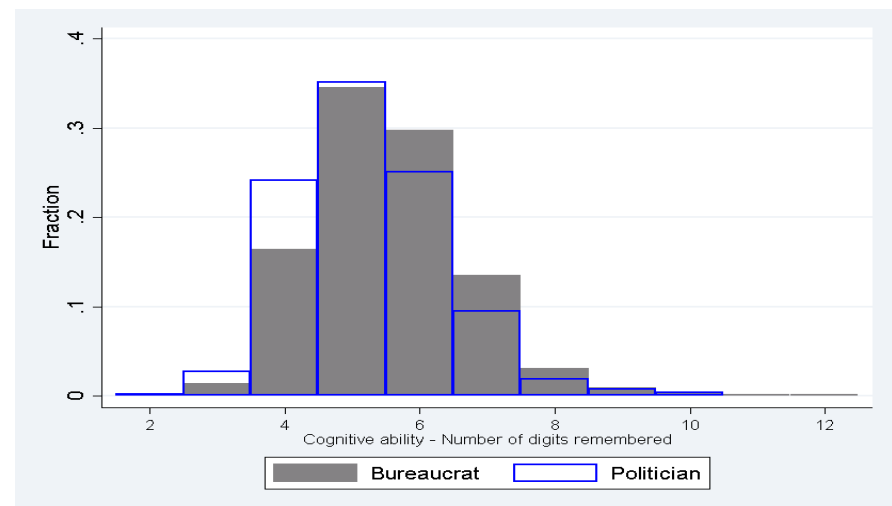
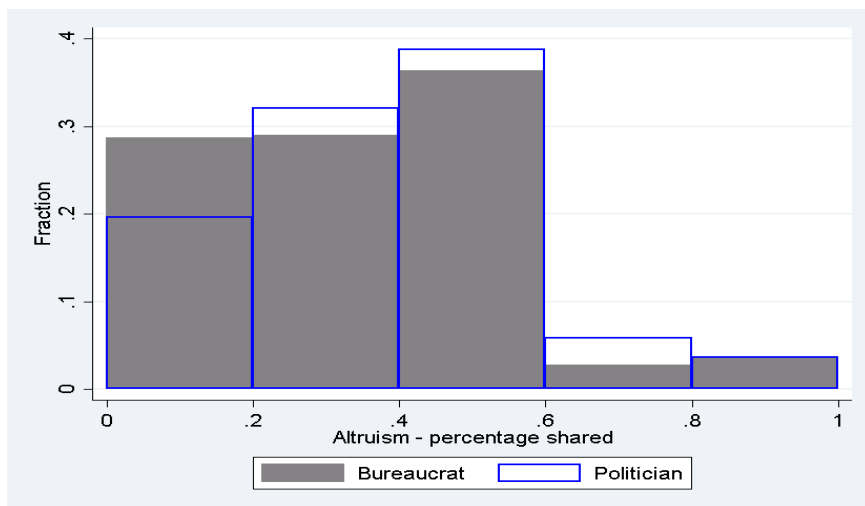
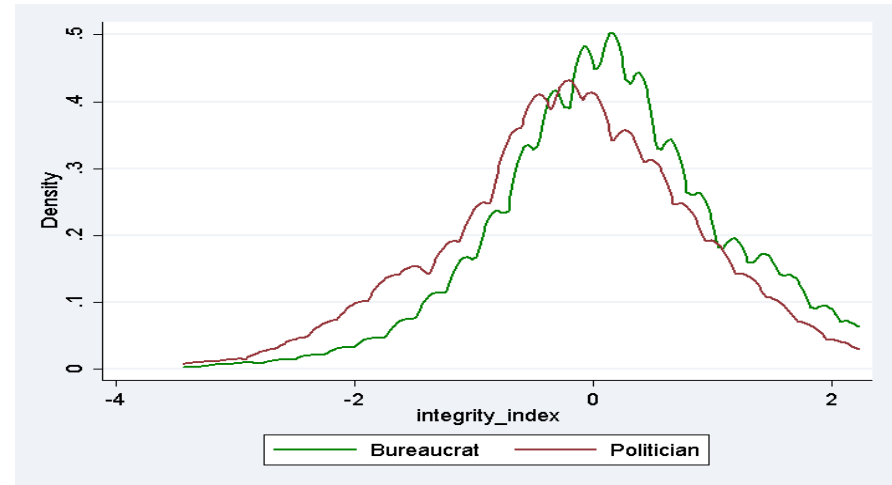
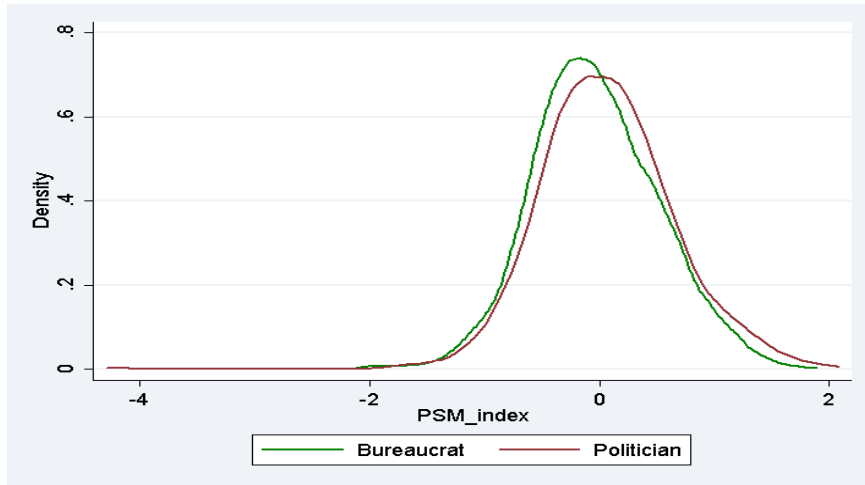
1. Rich world does not have the answers and should not try to replicate capacity “in its image”
2. Technical analysis of large data is a key comparative advantage of development actors, and can be leveraged more to nourish homegrown institutions
3. Change the model of development assistance from a proliferation of small “projects/programs” to lump-sum transfers, conditional on transparency about government performance (Devarajan and Khemani, 2016)

Next steps in research

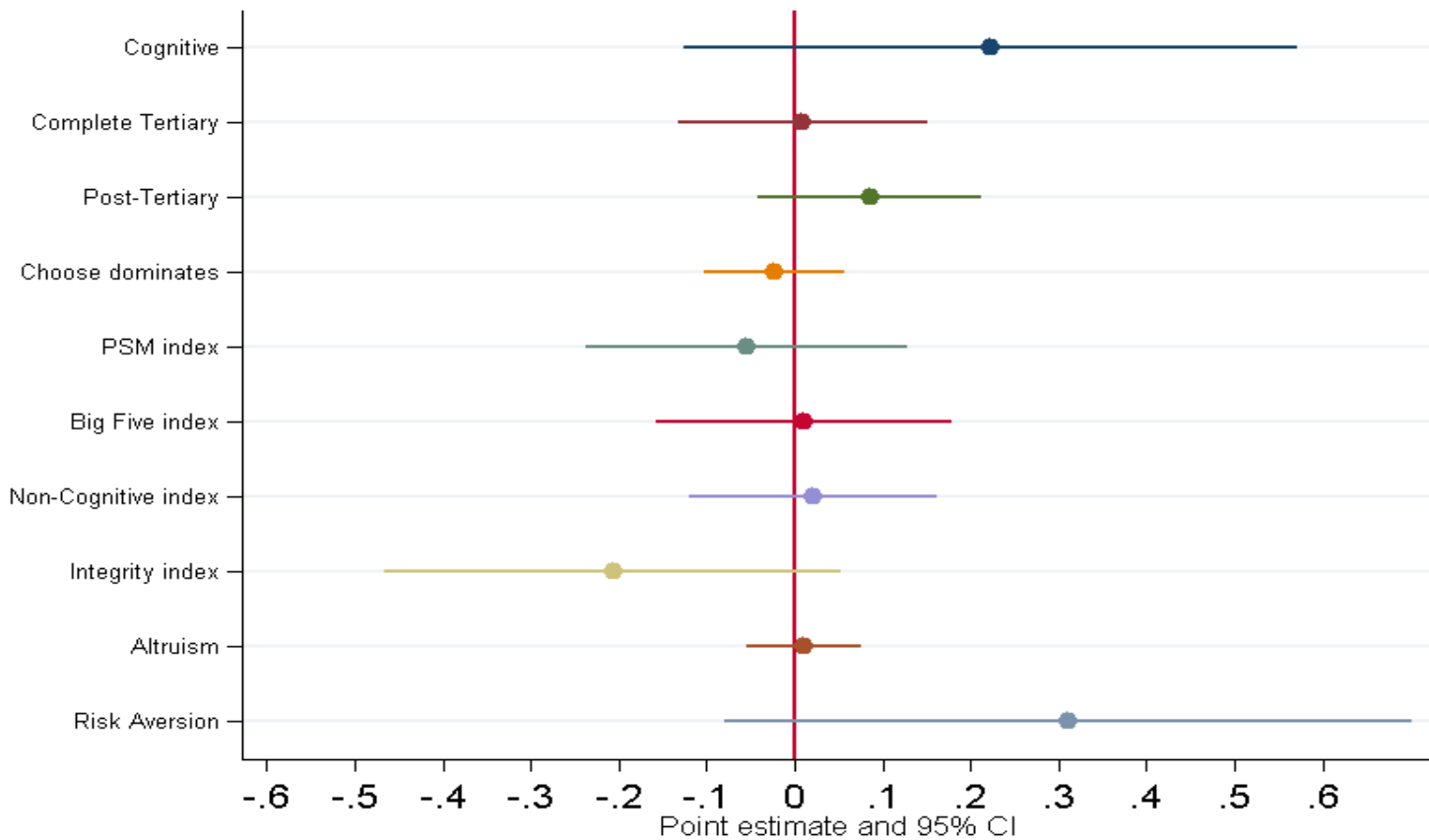


- Despite theoretical insights that have been around for some time, we have little empirical evidence on the **selection** of bureaucrats and politicians
- We also need more economic theory to support evidence gathering on “**political norms**”—beliefs or expectations among citizens, bureaucrats, and politicians about how others are behaving in the public sector
- **Are we measuring governance sufficiently well?** Absence of measures of selection and norms which may be critical for state capacity (if we are to believe the theoretical results on how to solve principal-agent problems in bureaucracies)

Eg: Motivation and personality traits of bureaucrats and politicians who make-up local state capacity in Uganda



Difference between elected chairperson and contenders



The graph reports difference in means elected Chairperson/Mayor and contenders for several individual traits