

# Growth in Fragile States

## IGC Growth Week 2016

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- Growth and policy making in fragile states is now a central issue
  - This goes to the heart of understanding some of the most complex problems of dysfunctionality in political economy
- And there is not much of a road map in "textbook" economic and political models
  - even those in development economics are pretty Panglossian about the constraints that state action faces.
- Aid and international assistance increasingly focused on a smaller number of troubled states with most a range of problems
- The Anna Karenina problem

*"All happy families are alike; each unhappy family is unhappy in its own way."*
- Research program has to get at roots of a range of very specific problems.

# Understanding Fragility

- There is a wide range of pathologies
- Thinking among economists on some of these issues has evolved a lot in the past 25 years
  - behavioural economics
  - political economy
- These have had a particular impact on thinking in development which will be useful for setting an agenda for the IGC.
- And there is already quite a bit of work which can be pulled together on these issues

- Three layers:
  - 1 Individual/household decision making
  - 2 Collective Action
  - 3 State action
- A unified framework will embrace all of these and bring insights from micro and macro together.

# Taking Tolstoy Seriously

## The UK Troubled Families Program

- Launched in 2011 to change the repeating generational patterns of poor parenting, abuse, violence, drug use, anti-social behaviour and crime in the most troubled families in the UK
- Troubled families are defined as those that have problems and cause problems to the community around them, putting high costs on the public sector
  - around 120,000 such families in England (estimate is that around £9 billion is spent each year on such families – around 75% of the size of the UK Aid Budget)
- The government invests £4,000 per family over 3 years, and each family having an assigned family worker.
- Aim is to:
  - get children back into school
  - reduce youth crime and anti-social behaviour
  - put adults on a path back to work
  - reduce the high costs these families place on the public sector each year

# Taking Tolstoy Seriously

Why are families troubled?

- Homo economicus view (efficient but troubled)
  - Need to understand constraints and incentives
  - Lack of capital and/or skills
- Behavioral economics view
  - George Loewenstein emphasises "visceral instincts" which lead to a range of self-destructive behaviours such as addiction and violence
- Sociological View

*"If .. the essentials of human personality were determined biologically, independent of social systems, there would be no need for families ... It is because the human is not "born" but must be "made" through the socialization process that in the first instance families are necessary. They are "factories" which produce human personalities.... We therefore suggest that the basic and irreducible functions of the family are two: first the primary socialization of children to that they can truly become members of the society into which they have been born; second, the stabilization of the adult personalities of the society." (Bales and Parsons, 1955)*

# Taking Tolstoy Seriously

## Cognitive and Non-cognitive Capacities

- Traditional view of human capital as "skills" is very narrow
- Work on early childhood intervention (e.g. Heckman) has put increasing emphasis on non-cognitive capacities such as
  - motivation
  - aspirations
  - ambition
- These are the product of investments (conscious and unconscious)
  - Can be turned around by early childhood intervention and a better environment.
  - Although heterogeneous responses create challenges and question of whether effects are temporary
- Troubled families self-reproduce low levels of cognitive and non-cognitive capacities.

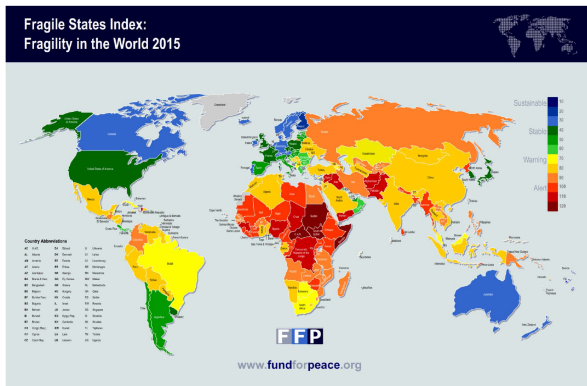
- Peer influence/interaction important as well as family influence
- Social capital
  - how do social interactions/networks improve provision of local public goods?
  - these are now considered important issues in development
- Anti-social capital
  - Promotes violence and conflict
  - Literature on micro-economics of conflict teaching us about this
- The capacity for collective action (for better or worse) is an important background factor



# Approaches to Collective Action

- Rational self-interest approach emphasise incentive to free ride
- But patterns in data suggest more going on
  - e.g. strong and consistent finding that education matters
- Amending framework to include direct utility benefits from collective action
  - “warm glow”
    - although could better be interpreted as values and intrinsic motivation
  - how voluntary is "voluntarism"?
- Then evolution of values/preferences matter

# State Fragility according to www.fundforpeace.org



# State Fragility according to www.fundforpeace.org

## IGC Countries

Alert	High Alert
90.0 Egypt (38)	100.0 Cote d'Ivoire (115)
90.2 Rwanda (37)	100.0 Zimbabwe (115)
90.5 Nepal (36)	102.4 Nigeria (14)
90.6 Sri Lanka (34)	102.9 Pakistan (13)
90.6 Timor-Leste (34)	104.5 Haiti (11)
90.8 Congo (Republic) (33)	104.5 Iraq (11)
91.8 Bangladesh (32)	104.9 Guinea (10)
91.9 Sierra Leone (31)	107.9 Afghanistan (8)
93.1 Mali (30)	107.9 Syria (8)
93.8 North Korea (28)	108.1 Yemen (7)
94.3 Cameroon (28)	108.4 Chad (5)
94.7 Myanmar (Burma) (27)	109.7 Congo (Dem. Rep.) (5)
94.9 Mauritania (28)	Very High Alert
95.3 Libya (25)	110.8 Sudan (4)
96.9 Eritrea (24)	111.9 Central African Rep. (3)
97.0 Uganda (23)	114.0 Somalia (2)
97.3 Liberia (22)	114.5 South Sudan (1)
97.4 Kenya (21)	
97.5 Ethiopia (20)	
97.8 Niger (18)	
98.1 Burundi (18)	
99.9 Guinea-Bissau (17)	

Out of 14 IGC countries,  
9 are “fragile states”

# State Fragility

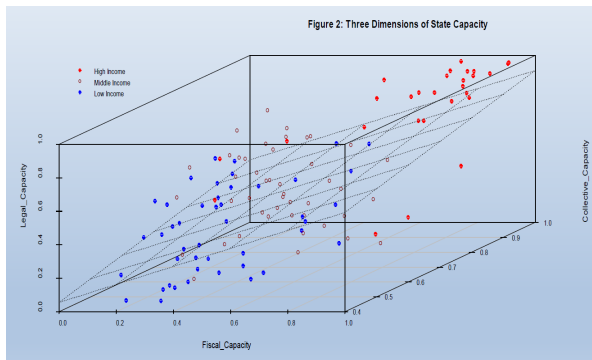
- States are a form of collective action
- But the main distinguishing feature of states is the role of coercive power of the state
  - Weberian idea is that the state has a monopoly on legitimate use of force
- Coercion is important in establishing law and order/raising taxes
- Little agreement on what a fragile state is but generally agreed characteristics:
  - weak state legitimacy
  - weak state capacity
  - weak resilience to shocks
    - all interrelated
- Not all clear what is a symptom and what is a cause
  - indices of fragility are particularly difficult to interpret for this reason
  - but there is much serious work and thinking that goes into constructing them

- Widely argued (although less well-understood) is the role of state legitimacy
  - has yet to be brought into the political economy literature in a satisfactory way
  - rational choice approaches have tended to focus on “multiple equilibria”
- Key idea is that state has power to coerce through acceptance of its legitimacy
  - “the elixir of political power”
  - many explorations risk being circular
- Studies of obedience in psychology are revealing
  - Milgram experiments still making waves
- Interesting links to ideas on national identity?

- Three dimensions:
  - Fiscal
  - Legal
  - Collective
- A web of complementarities between different dimensions makes this hard to study.
- Crude effort just to illustrate these ideas
  - Collective capacity is an index based on school attainment and life expectancy as measured in 1999.
  - Fiscal capacity is the share of income taxes in total revenue in 1999.
  - Legal capacity is an index of contract enforcement as measured by the World Bank's Doing Business in 2006

# State Capacities

- Plot these against each other coloring the dots according to the income level of different countries.



- Institutions matter
  - Rules of the game shape incentives and selection
    - affect who holds office and on what terms
  - Investments in state capacity (and political violence) respond to this
- But begs question of how institutions evolve
  - Strategic view – institutions modeled as responding to interests of masses and politically powerful groups
  - Cultural view – values evolve to support institutional arrangements
  - Culture can have a direct effect beyond its impact on institutions
- Cultural norms also affect how institutions work



# Within-Country Heterogeneity

- States project power in municipal, regional, city and national government
- Important research to be done in mapping state capacities sub-nationally
- In many countries state fragility is much worse in some regions than others
  - much studied example of Colombia
- National institutions can also be important in affecting the distribution of outcomes within countries

- Unified platform for geographical research on war ( $GROW^{up}$ )
  - 564 ethnic groups in 130 countries in the period 1992-2010
  - yearly panel data on access to political power and night light emissions, interpolated population data
  - captures access to power: participation of members of relevant ethnic groups in the executive
  - seven subcategories: discriminated, powerless, self-excluded, junior partner, senior partner, dominant and monopoly
- We merge both with polity IV measure of strong executive constraints ( $xconst=7$ ) and high openness ( $xropen=4$ ).

# Excluded Groups and Executive Constraints

- How do excluded groups do with strong executive constraints?
  - use time variation in executive constraints and political exclusion
  - excluded == powerless, discriminated and self-excluded groups according to the data.

- Night-light per capita of ethnic group  $i$  in country  $c$  in year  $t$  :

$$\log(\text{light per capita})_{ict} = \alpha_1 \times \text{excluded}_{ict} + \alpha_2 \times \text{excluded}_{ict} \times \text{weakconstraints}_{ct} + C_{ct} + \eta_i + \epsilon_{it}$$

where  $C_{ct}$  are country/year fixed effects,  $\eta_i$  are group fixed effects.

- $\text{excluded}_{ict}$  is the share of years the group was excluded from political power and  $\text{excluded}_{ict} \times \text{weakconstraints}_{ct}$  is the share of years the group was excluded in a year with weak executive constraints.
- identification is demanding – country/year fixed effects control for time-varying country-level heterogeneity
- If strong executive constraints reduce political discrimination then  $\alpha_2 < 0$ .
- Also similar specification with conflict as the left-hand side variable.

# Strong Executive Constraints, Political Exclusion and Income

Table 3: Political exclusion and night light

VARIABLES	(1) ln(light per capita)	(2) ln(light per capita)	(3) ln(light per capita)
share of years excluded from power	-0.168* (0.0966)	-0.0504 (0.0548)	-0.176* (0.0969)
share of years excluded from power * in weak executive constraints	-0.210** (0.0932)	-0.139*** (0.0538)	-0.219** (0.0933)
country/year fixed effects	yes	yes	yes
group fixed effects	yes	yes	yes
population, organization and area trends	no	no	yes
Observations	9,107	9,107	9,037
R-squared	0.975	0.990	0.974

Robust standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. All regressions use GROWup data at the ethnic homeland level. Light per capita is the amount of night light per capita emitted by the ethnic homeland in that year. Column (2) uses ethnic group size as a regression weight. Column (3) controls for time trends in urbanization, population and area. "Excluded from power" are powerless, discriminated and self-excluded ethnic groups.

# Strong Executive Constraints, Political Exclusion and Conflict

Table 4: Political exclusion and armed conflict

VARIABLES	(1)	(2)	(3)	(4)	(5)
		conflict incidence		territorial conflict	governmental conflict
share of years excluded from power	0.164*** (0.0561)	0.183*** (0.0466)	0.194*** (0.0477)	-0.00657 (0.0162)	0.190*** (0.0451)
share of years excluded from power * in weak executive constraints	0.0409 (0.0469)	0.132*** (0.0419)	0.133*** (0.0426)	0.0178 (0.0161)	0.115*** (0.0398)
country/year fixed effects	yes	yes	yes	yes	yes
group fixed effects	yes	yes	yes	yes	yes
population, urbanization and area trend	no	no	yes	no	no
Observations	9,107	9,107	9,037	9,107	9,107
R-squared	0.700	0.782	0.783	0.803	0.765

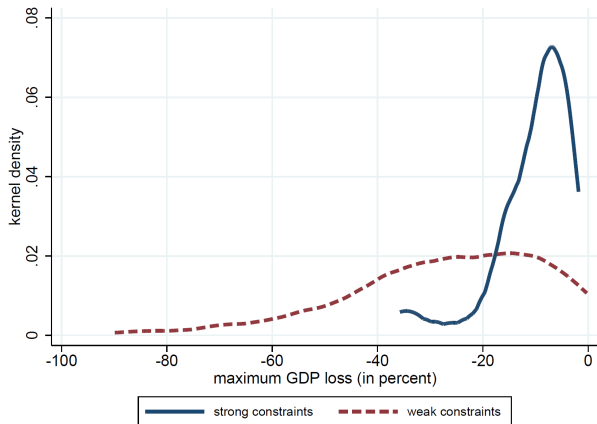
Robust standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. All regressions use GROWup data at the ethnic homeland level. Conflict incidence is the incidence of armed conflict in the ethnic homeland in that year. Columns (2) to (5) use ethnic group size as a regression weight. Column (3) controls for time trends in urbanization, population and area. "Excluded from power" are powerless, discriminated and self-excluded ethnic groups. Columns (4) and (5) differentiate between territorial and governmental conflicts. These are coded according to the UCDP/PRI0 coding of underlying incompatibility.

# Weak Resilience to Shocks

- Economies are facing shocks all the time
  - external, e.g. commodity prices
  - internal e.g. natural disasters
- Some shocks are entirely “man made”
  - e.g. corruption scandals
- How governments respond to shocks is a key issue
  - shocks have been linked to conflict
- Institutions are likely to be important in mediating this

# Illustration

## GDP Shocks (cumulative decline)



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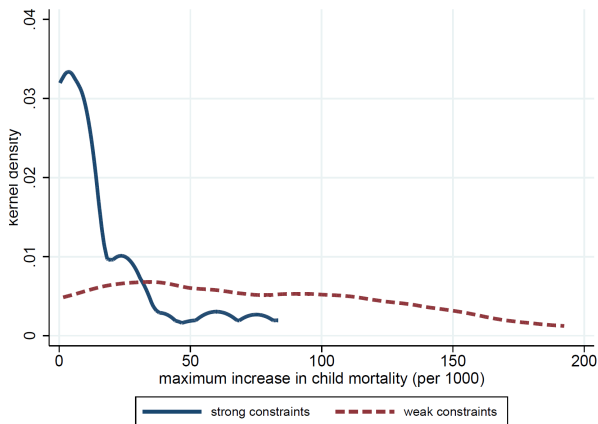
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Penn World Table Data				World Bank Data			
	worst GDP per capita decline				worst GDP per capita decline			
executive constraints before decline	15.22*** (2.205)	13.16*** (2.320)	9.938*** (2.850)	8.473*** (3.110)	16.40*** (2.122)	17.38*** (2.378)	17.49*** (3.367)	11.89*** (3.705)
openness of recruitment before decline		6.353* (3.399)	6.374* (3.331)	4.540 (3.971)		-3.043 (3.923)	-3.035 (3.922)	-2.834 (4.315)
GDP per capita before decline			17.75** (8.480)	-0.556 (12.93)			-0.388 (7.584)	-0.126 (11.77)
Sub-Continent Fixed Effects	no	no	no	yes	no	no	no	yes
Observations	147	147	147	147	151	151	151	151
R-squared	0.158	0.185	0.210	0.340	0.165	0.170	0.170	0.365

Robust standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. "worst GDP per capita decline" is the worst change in GDP experienced by a country in percent (as displayed in Figures). A positive coefficient implies that declines are less bad on average.



# Illustration

## Infant Mortality (cumulative decline)

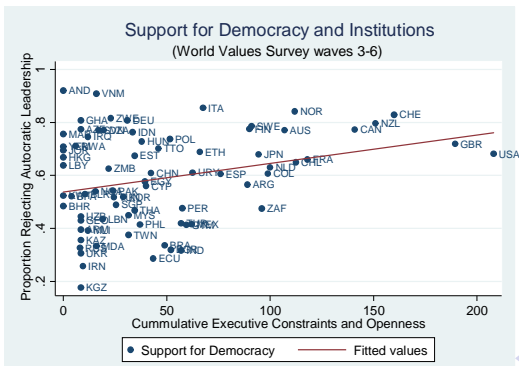


# Where do Executive Constraints Come From?

- Dominant approach in political economy literature is strategic forward-looking approach
  - offensive or defensive reforms
- Dominant approach in traditional political science emphasises evolution of supporting values creating a democratic tradition
  - norms are important in supporting democratic decision making.
- Both views have some validity and next phase of work is to bring them together
  - quite consistent with a disaggregated approach emphasised here
  - most interesting is the interplay of values and institutions
  - following picture is from a recent paper with Torsten Persson which tries to do that

# WVS democratic values and Polity IV democratic experience by country

- WVS question "Is it good to have a strong leader who does not have to bother with parliament and elections"
  - 1== "bad or very bad" as a measure of support for democratic institutions
  - average across 4 waves – 1996-2012



# The Agenda

- More work to understand three dimensions of state fragility
- More work on country-level heterogeneity and micro economic “mechanisms”
- More work on understanding values and attitudes
- And then link to issue of outside interventions

THANK YOU VERY MUCH!