

The State

Economics, Politics, and African Societies: TA o6

Vincent Tanutama

Spring 2021

University of Chicago

Harris School of Public Policy

Discussion Section

How do state and society interact to govern exchange?

Table of contents

1. Discussion Section

2. A crash course in state formation

State and its essential functions

Foundations of property rights

State formation

3. African states

“Corruption”

Bureaucracies

Toward state and society

How do states form?

A now-standard definition of state in Political Economy

... a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory.

— Weber (1919)

A state is an *organization* with a *comparative advantage in violence*, extending over a geographic area whose *boundaries* are determined by its *power to tax constituents*. The essence of property rights is the right to exclude, and an organization which has a comparative advantage in violence is in the position to *specify and enforce property rights*.

— North (1981)

Two property rights based theories of state formation

1. **Contractarian** tradition: constituents demand state to enforce property rights, be an arbiter of conflicts, promoting order, security and wealth. State mediates conflict of interest *between individuals*. The formation of state is endogenous to the citizens' demand for property rights protection.
e.g. Hobbes (1651), Rousseau (1762), Boix (2015)
2. **Predatory** tradition: a group or class imposes state to extract income from the rest. The predatory state imposes property rights that maximize revenue for group in power. The conflicts of interest are *between individuals and the state*.
e.g. Marx (1978), Scott (1999)

What does a state do? A neoclassical view.

- A state provides services in exchange for revenue.
- The “basic services that the state provides are the underlying rules of the game,” whether unwritten customs or written constitutions.
- Infrastructure of such rules/“institutions” (North, 1991) must
 1. Define property rights, i.e. ownership structure in factor and product markets, to maximize the rents accruing to the ruler.
 2. Reduce transaction cost, i.e. specification, negotiation and enforcement of contracts, to maximize social output and increase tax revenue.
- Think about this rent as monopoly rent. How to maximize and distribute state rent is political science.

But *what* services does a state provide?

Essential functions of the state (Tilly, 1985)

- Eliminate external rivals and oppressing internal opponents
- Repress threats to the property of the governed
- Design the means to finance these activities

i.e. state as “**protection rackets.**”

Competition and transaction cost govern state behavior

- Because state monopolizes violence and rent extraction, the behavior of state is conditioned on potential competitor who wishes to provide the same function.
- The degree of violence matters for the stability of rule.
- External agents with military technology can threaten. Internal agents can organize to provide better distribution of rent.
- Under **competitive constraint**, rulers will avoid offending strong constituents (Bates, 1981), granting inefficient property rights.
- Under **transaction cost constraint**, e.g. monitoring and enforcement, rulers choose inefficient property rights.

So how do property rights emerge?

- Property rights “specify how persons may be benefited and harmed, and, therefore, who must pay whom to modify the actions taken by persons” (Demsetz, 1974).
- Because property rights are an instrument to internalize the benefits/harm, property rights emerge when the gains from internalization of new benefits/harm exceed its costs.
- What are these new factor/technology that demand the emergence of property rights?

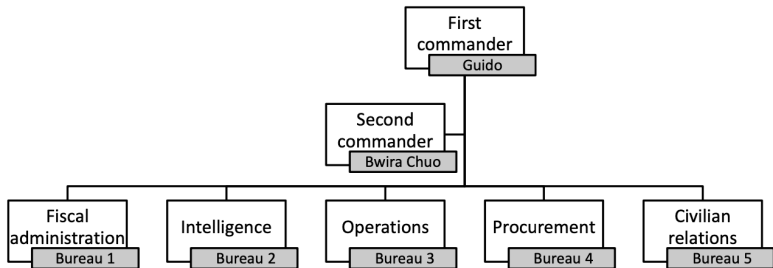
How do property rights intensify state functions?

- Property rights emerged in rural Kivus because the gains from internalizing the new benefits of resource discovery are greater than the costs—*the same violence for predation can be used for protection* (Sánchez de la Sierra, 2020).
- (But only when time horizon is long enough that net gains from internalization to materialize (Henn et al., 2021)).
- Why did tax function emerge? More efficient property rights increase production, making investment in fiscal capacity (to tax production) more valuable on the margin (Besley and Persson, 2009).
- The intensification increases with complexity of tax collection.
- The increase on welfare depends on protection and returns from production, as well as the disincentives introduced by taxation needed to finance production.

When do states form?

- Both stationary bandit papers show under right circumstances essential functions of state may emerge (or dismantle).
- Why allow militia leaders to be stationary bandits and extort? Olson (1993) notes that taxation by **stationary bandits** is better than that by **roving bandits**.
- States form when stationary bandits have out-competed roving bandits, successfully established monopoly of violence over the territory, eliminating the worry that constituents be taxed by different groups of roving bandits countlessly.
- Monopolization of theft vs uncoordinated competitive theft.

See the state in the Nduma organization chart?





African states

What about African states?

- We took a swift tour on how non-state armed actors are left by the states to “*se débrouiller*.”
- But state actors are often left to fend for themselves, inducing complex organization of rent.
- 2 examples on “corruption” from DRC and Nigeria today, 1 from Sierra Leone next week.

Corrupt organization I: DRC Traffic Police

- Overcrowding, reckless driving, and terrible engine of minibuses in Kinshasa (*“esprit de mort”*) prompted demand for safer transportation.
- Simultaneously, Kabila needed political base in Kinshasa to fight off perception of illegitimacy (De Herdt and Titeca, 2019).
- Precipitated the 2014 reform, which created one-stop-shop to meet formal safety requirements.
- Who wins? **Kinshasa provincial government** directs the shop, amassing much revenue, due to recent decentralization law.
- Who loses? **National government**, so diverted minibuses from the shop (*“bouche du crocodile”*) by reinforcing previous protection rackets and offering cheaper price.
- Two stories of state capacity: loss of monopoly over state functions, but intensification of each organization.

Vertical corruption and entrenchment of the quota system

- Two vertically-differentiated corruption technologies: street agents collect bribe through harassment and toll
- Commanders demand their agents to fulfill daily quota where extortion at station is higher. 75% of bribe revenue!
- Evidence of income effect: doubling street-agents' income reduces bribe, street presence (hence traffic jam), and there is a vertical cost of hierarchy: 29% taxation by commanders.
- Halving quota reduces harassment, especially in the morning.
- The organization is consistent with profit maximization (Sánchez de la Sierra et al., 2021).

Corrupt organization II: Nigerian government

- “419”: labeled after the Nigerian criminal code for scam and fraud, e.g. young Nigerians in internet cafes crafting scam emails, creation of local NGOs to siphon international donor dollars into individual hands, teams’ elaborate scheme piggybacking multimillion dollar projects and asking \$100,000 as grease the wheel payment.
- Anecdotes emphasize conspicuous redistribution of accumulated wealth and its theatrics sustain the logic of patron-clientism which looks like corruption to outside observers (De Sardan, 1999)
- “To be without a patron is to be without access to resources, but to be a patron is to be under great pressure to accumulate and share wealth, including through corruption” (Smith, 2010).

Useful typology of corruption drawn from Blundo et al. (2013)

1. **Commission for illicit services** is payment by users to officials which grant access to unwarranted advantages.
2. **Gratuities** is payment, usually followed by thank you. Called a “dash” in Nigerian following payment after officials doing their job without expectations of asking bribe.
3. **Unwarranted payment for public services** is charging above MC.
4. **String pulling** is using social network for preferential access to employment opportunities, especially those from the state.
5. **Levies and tolls** is extortion from person of power.
6. **Sidelining** is public/company resources for private purpose.
7. **Misappropriation** is more intense and concealed sidelining.

An economic typology of corruption

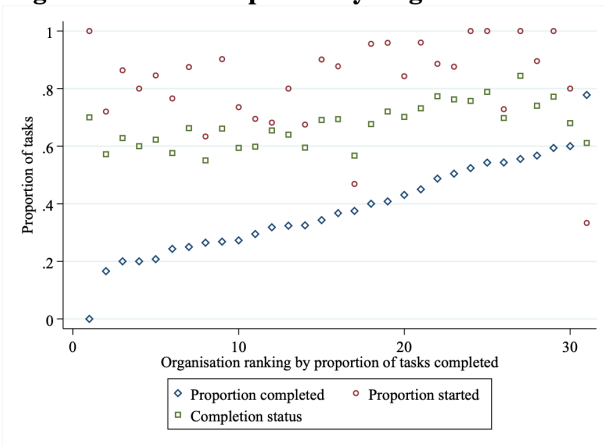
1. **Corruption** is when bureaucrat breaks the rules.
 2. **Bribe-taking** is when bureaucrat charges $P >$ than mandated.
 3. **Red-tape** is when bureaucrat implements more testing than mandated.
 4. **Shirking** is when bureaucrat fails to implement mandated test.
 5. **Allocative inefficiency** is when wrong people obtain the slots (according to the rules) or some slots remain unallocated when the rules require that all slots be given out.
- Defined on legal rules and tasks, circumventing the normative discussions of sociocultural influence (Banerjee, Mullainathan and Hanna, 2012).
 - Invites discussions of how rules are defined in the first place, likely driven by the aspiration for patron-client relationships.

Beyond corruption: Commitment problems

- One-third of 14,000 small development projects never completed, consuming nearly one-fifth of all Ghana's local government investment (Williams, 2017)
- Cannot square with corruption because it would imply stronger incentives to reap benefits from every contractual process.
- Logrolling, i.e. "vote for my project this year, and I will vote for your project next year"
- Current non-recipients have no incentive to stick to promise knowing that current beneficiaries have an incentive to renege.
- Collective choice among actors constrained with commitment problems over locally targeted projects can induce inefficient expenditure (Weingast and Marshall, 1988)

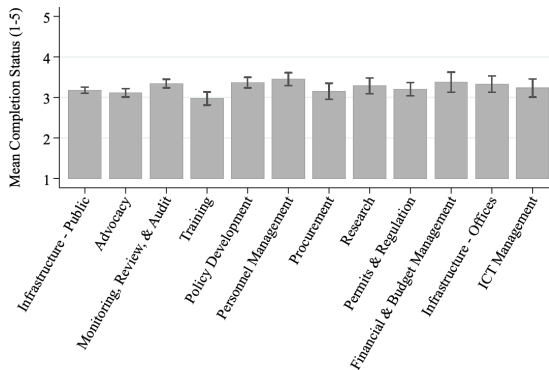
Unpacking heterogeneity in bureaucracies in Ghana

Figure 3: Task Completion by Organization



Little heterogeneity in completion by task type

Figure 4: Task Completion by Task Type



- Training is shown to improve org culture (Azulai et al., 2020).
- Rasul, Rogger and Williams (2020) show that autonomy increases task completion, echoing the emerging literature on agency problems within bureaucracies (Bandiera et al., 2020).

Legacy of Ashanti?

- The Ashanti Empire adopted in 1760s what administratively resembled a Weberian bureaucracy ([Wilks, 1966](#))
 1. Aristocracy appointed by the king.
 2. Appointees were fixed duties of administrative kind.
 3. Pecuniary rewards for administrative service.
 4. Projection of public image for state's legitimacy of service.
- But [Weber \(1964\)](#) would disagree with the characterization of regime as rational-legal (no meritocratic appointment, network-based), instead sultanistic.
- Matrilineality of Akan people was reflected in appointment structure: "An official may thus have, working with him and understudying him, his and his brothers' sons, his sisters' sons, and domestics, but not his wives' brothers' son."

Economy without State? Evidence from Somalia

- Somalia was traditionally a nomadic “pastoral democracy” (Lewis and Samatar, 1999), social order through clan-family system (heading clans, primary lineages and then dia-paying group) which mediates power and conflict.
- Differentiated modern economy: livestock (herders and traders) and firearms (urban warlords)
- How can economy be sustained without state? Hint: **S__ETY**
- **“Peace in the feud”** (Gluckman, 1963): contest of power is necessary to maintain order, keeping people together is difficult unless different groups felt they had a chance of controlling central authority.

Applying political economy and political sociology perspectives

- To summarize, monopoly over violence is crucial:
 1. Producing different structures of property rights protection and transaction cost.
 2. Determining investments in state capacity
 3. Organizing the architecture of state and of potential entrants.
- States form/dismantle according to the rent-maximization motive and investments in the administrative capacity to achieve this objective (“corruption”).
- But the degree of how society is embedding in state (“corruption”) and state in society (next week) matters for the structure of bureaucracy, governance of exchange, and ultimately social welfare.
- Profs. argue that **legalistic** lense of state can miss many state functions emerging and dissolving.

Embedded Autonomy (Evans, 2012)

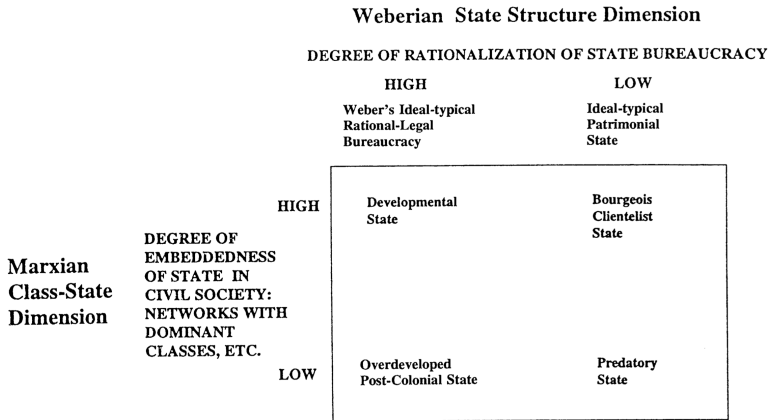


Figure 1. Theoretical Dimensions of "Embedded Autonomy"

The range and intensity of mechanisms of domination of the post-colonial state should not suggest that subordinated social actors remain passive or powerless. On the contrary, they resist and undermine the construction of a dominant class in all sorts of ways... Popular modes of political action, elusive and changing, weighing on the state, limiting its range and intervention, ensuring a revanche of society on the state.

—Bayart (1979)

My guess for next week's highlights

1. **Monday May 10:** LNRW (2017) Kuba Kingdom, Heldring (2020) Rwanda
2. **Wednesday May 12:** ARR (2014) Sierra Leone Chiefs, my wild guess (!) Southall on Alur, Spencer on Samburu, Lecture 5 2020, perhaps Botswana!

- Azulai, Michel, Imran Rasul, Daniel Rogger, and MJ Williams.** 2020. "Can Training Improve Organizational Culture? Experimental Evidence from Ghana's Civil Service." Tech. rep., University College London. 7.
- Bandiera, Oriana, Michael Carlos Best, Adnan Qadir Khan, and Andrea Prat.** 2020. "The allocation of authority in organizations: A field experiment with bureaucrats." National Bureau of Economic Research.
- Banerjee, Abhijit, Sendhil Mullainathan, and Rema Hanna.** 2012. "Corruption." National Bureau of Economic Research.
- Bates, Robert.** 1981. *Markets and states in tropical Africa : the political basis of agricultural policies*. Berkeley:University of California Press.
- Bayart, Jean-François.** 1979. "L'Etat au Cameroun." *VRÜ Verfassung und Recht in Übersee*, 13(1): 80–81.
- Besley, Timothy, and Torsten Persson.** 2009. "The origins of state capacity: Property rights, taxation, and politics." *American economic review*, 99(4): 1218–44.
- Blundo, Giorgio, Jean-Pierre Olivier de Sardan, N Bako Arifari, and M Tidjani Alou.** 2013. *Everyday corruption and the state: Citizens and public officials in Africa*. Zed Books Ltd.
- Boix, Carles.** 2015. *Political order and inequality*. Cambridge University Press.
- De Herdt, Tom, and Kristof Titeca.** 2019. *Negotiating public services in the Congo: State, Society and Governance*. London:Zed Books Ltd.
- Demsetz, Harold.** 1974. "Toward a theory of property rights." In *Classic papers in natural resource economics*. 163–177. Springer.
- De Sardan, JP Olivier.** 1999. "A moral economy of corruption in Africa?" *Journal of Modern African Studies*, 25–52.
- Evans, Peter B.** 2012. *Embedded autonomy: States and industrial transformation*. Princeton University Press.
- Gluckman, Max.** 1963. *Custom and Conflict in Africa*. Basil Blackwell.
- Henn, Soeren J, Christian Mastaki Mugaruka, Miguel Ortiz, Raúl Sánchez de la Sierra, and David Qihang Wu.** 2021. "On the Ends of the State: Stationary Bandits and the Time Horizon in Eastern Congo." National Bureau of Economic Research.
- Hobbes, Thomas.** 1651. *Leviathan*. Oxford:Clarendon Press.
- Lewis, I.M., and S.S. Samatar.** 1999. *A Pastoral Democracy: A Study of Pastoralism and Politics Among the Northern Somali of the Horn of Africa*. Classics in African anthropology, LIT.
- Marx, Karl.** 1978. *The Marx-Engels reader*. New York:W. W. Norton & Company.
- North, Douglass C.** 1981. *Structure and change in economic history*. New York:Norton.
- North, Douglass C.** 1991. "Institutions." *Journal of Economic Perspectives*, 5(1): 97–112.
- Olson, Mancur.** 1993. "Dictatorship, Democracy, and Development." *American Political Science Review*, 87(3): 567–576.
- Rasul, Imran, Daniel Rogger, and Martin J Williams.** 2020. "Management, Organizational Performance, and Task Clarity: Evidence from Ghana's Civil Service." *Journal of Public Administration Research and Theory*, 31(2): 259–277.
- Rousseau, Jean Jacques.** 1762. *Du contrat social*. Flammarion.
- Sánchez de la Sierra, Raúl.** 2020. "On the origins of the state: Stationary bandits and taxation in eastern congo." *Journal of Political Economy*, 128(1): 000–000.
- Sánchez de la Sierra, Raúl, Kristof Titeca, Albert Jolino Malukisa, and Lameke Aimable Amani.** 2021. "Corruption with a Hierarchy." Working Paper.
- Scott, James.** 1999. *Seeing like a State*. New Haven and London:Yale University.
- Smith, Daniel Jordan.** 2010. *A culture of corruption*. Princeton University Press.
- Tilly, Charles.** 1985. "War Making and State Making as Organized Crime." Cambridge:Cambridge University Press.
- Weber, Max.** 1919. "Politics as a Vocation." *The Vocation Lectures*.
- Weber, Max.** 1964. *The theory of social and economic organization*. New York London England:The Free Press, a division of Macmillan Publishing Co., Inc. Collier Macmillan Publishers.
- Weingast, Barry R, and William J Marshall.** 1988. "The industrial organization of Congress; or, why legislatures, like firms, are not organized as markets." *Journal of Political Economy*, 96(1): 132–163.
- Wilks, Ivor.** 1966. "Aspects of bureaucratization in Ashanti in the nineteenth century." *Journal of African History*, 215–232.
- Williams, Martin J.** 2017. "The political economy of unfinished development projects: Corruption, clientelism, or collective choice?" *American Political Science Review*, 111(4).