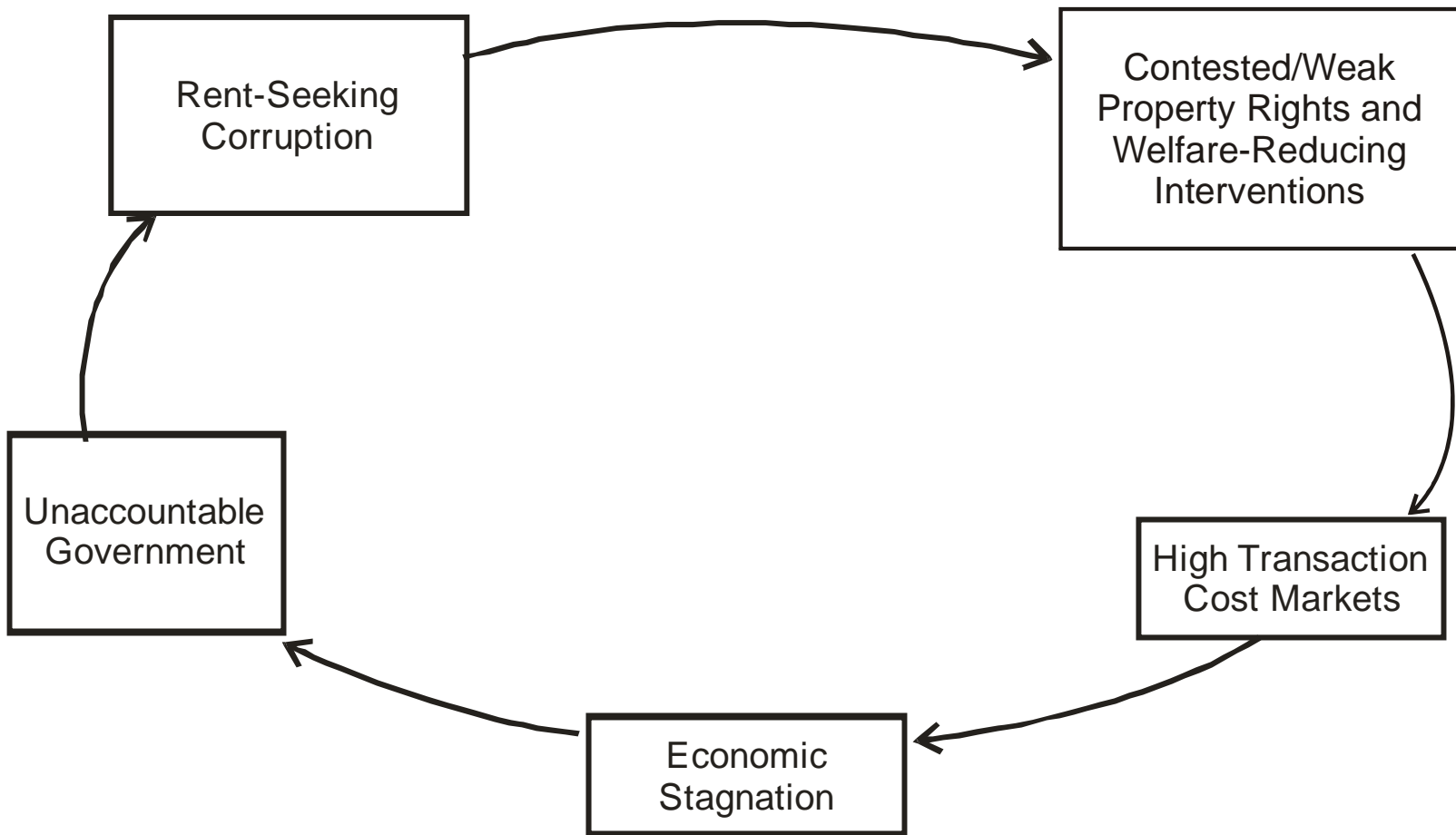


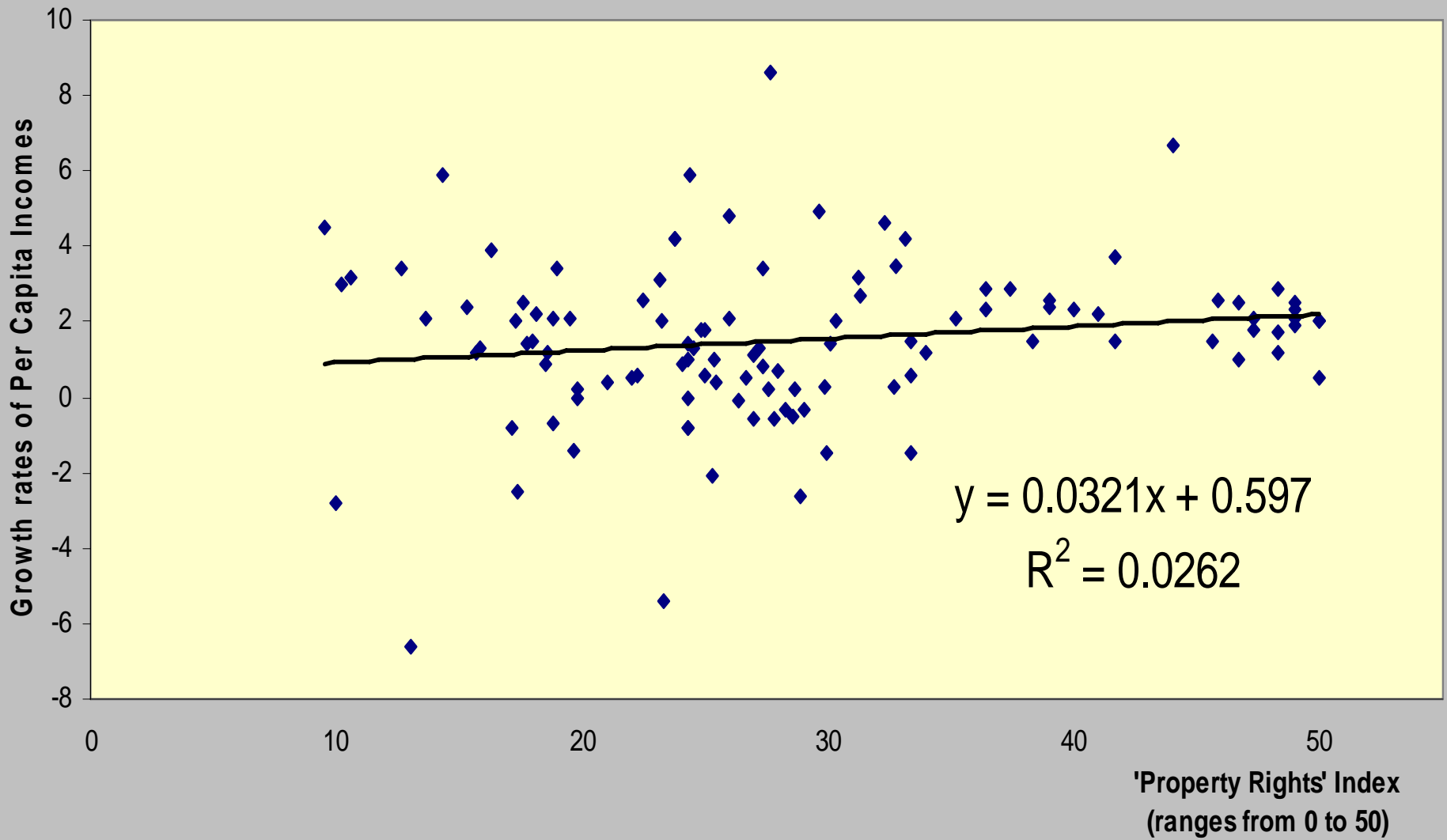


# State Capabilities and Institutional Reform

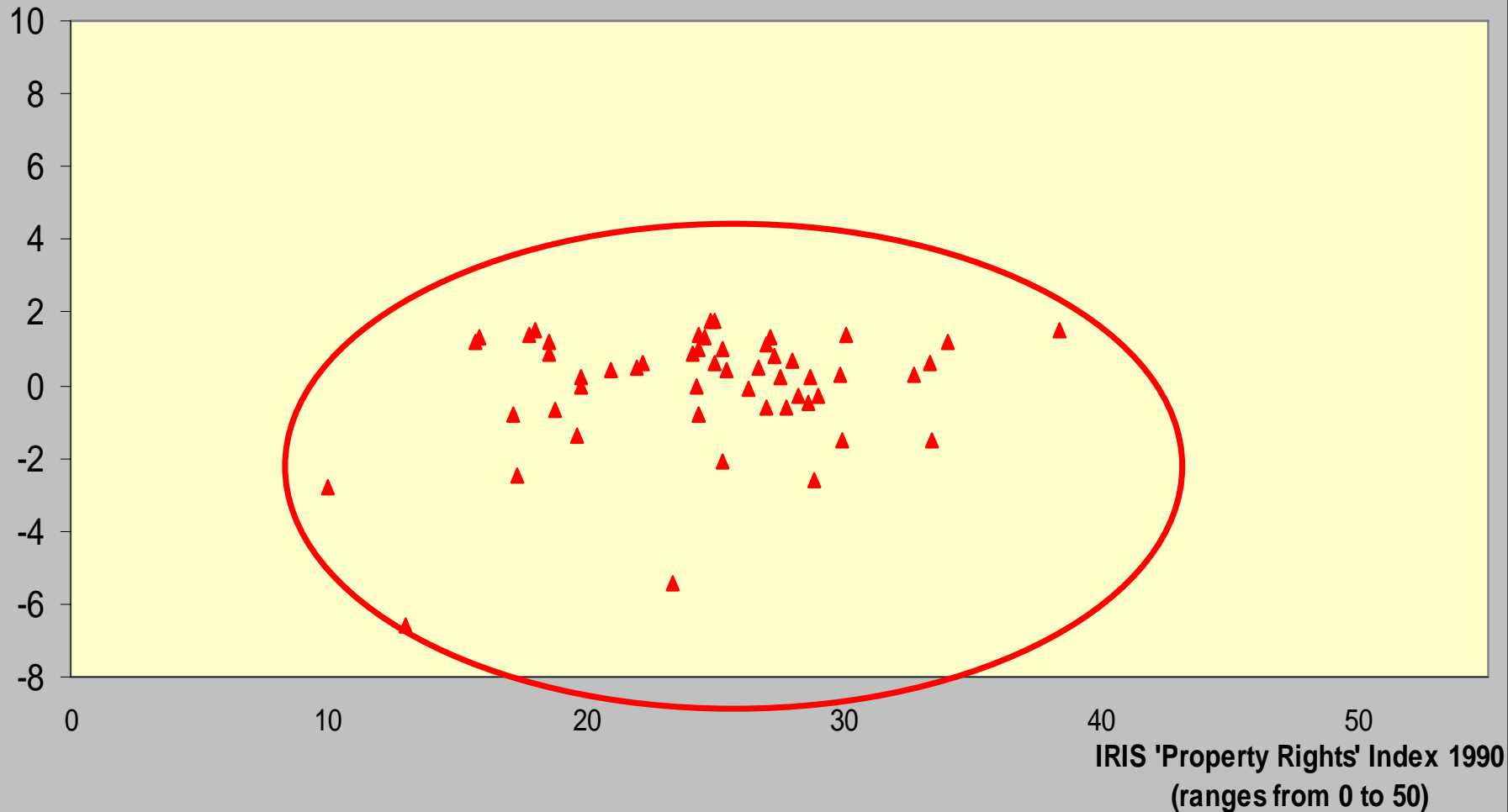
Mushtaq H. Khan,  
Department of Economics, SOAS



Governance and Growth 1990-2003 using Knack-IRIS data

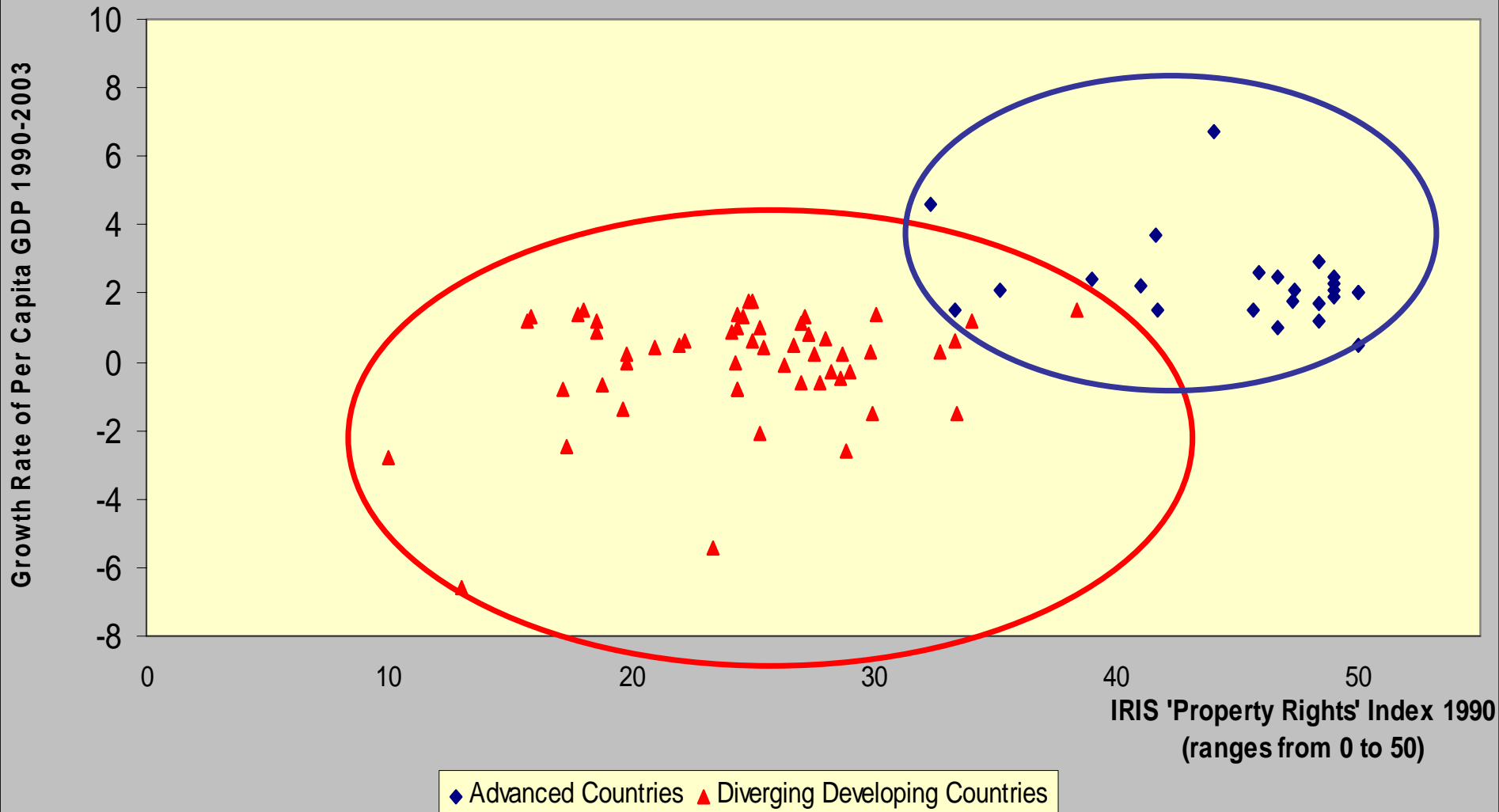


## Market-Enhancing Governance: Composite Property Rights Index and Growth (using Knack- IRIS data) 1990-2003

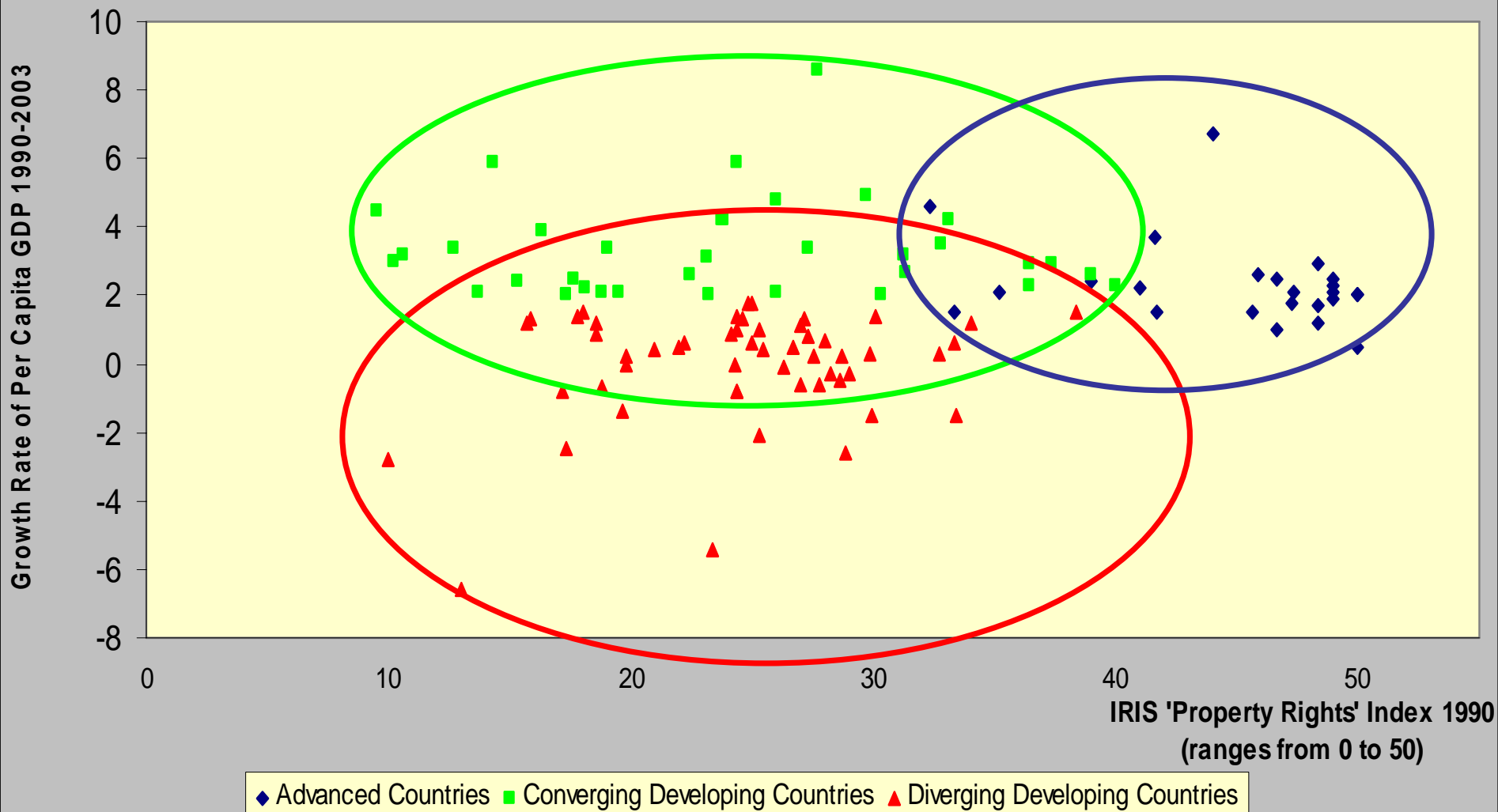


▲ Diverging Developing Countries

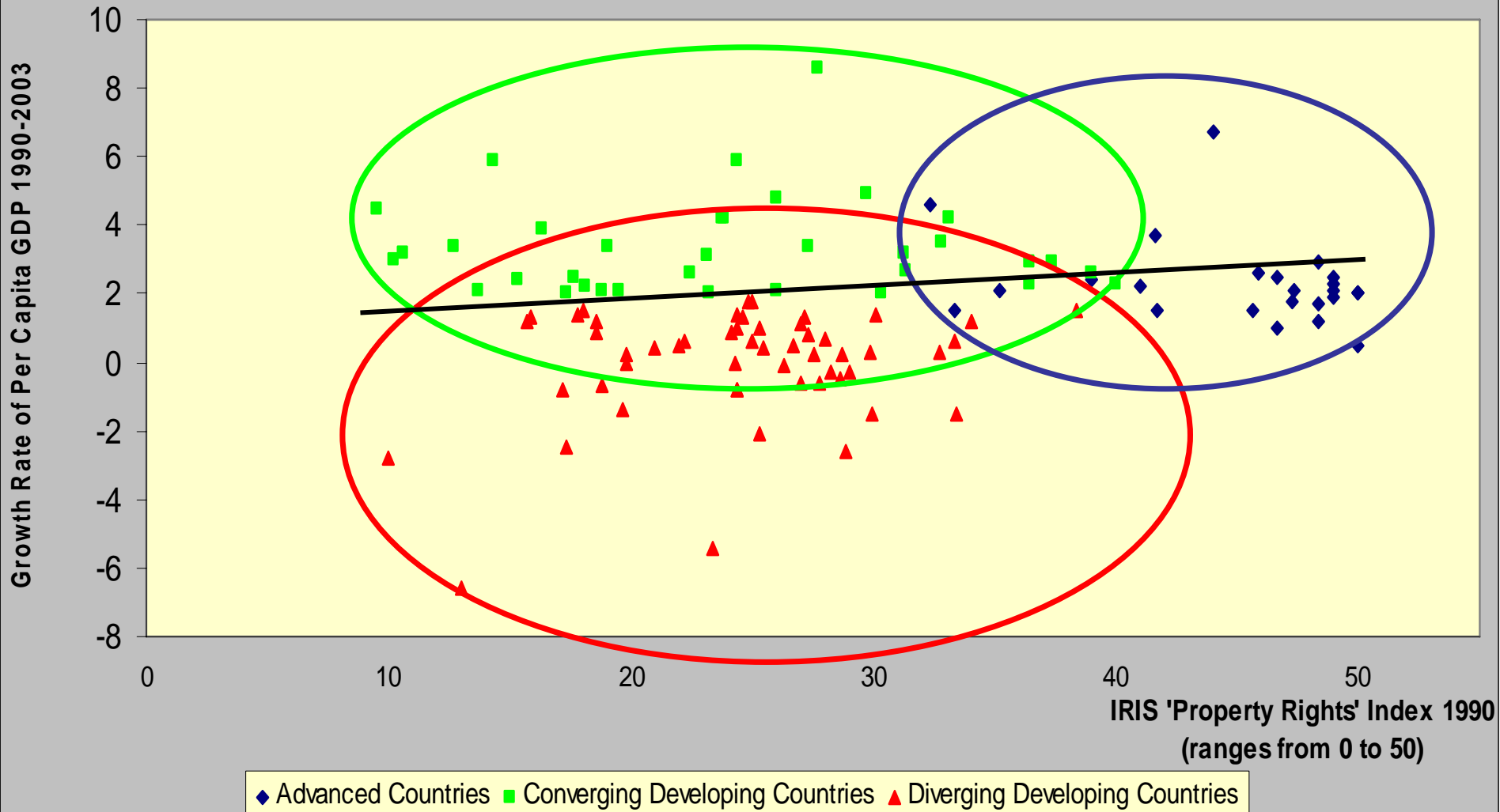
## Market-Enhancing Governance: Composite Property Rights Index and Growth (using Knack- IRIS data) 1990-2003



Market-Enhancing Governance: Composite Property Rights Index and Growth  
(using Knack- IRIS data) 1990-2003



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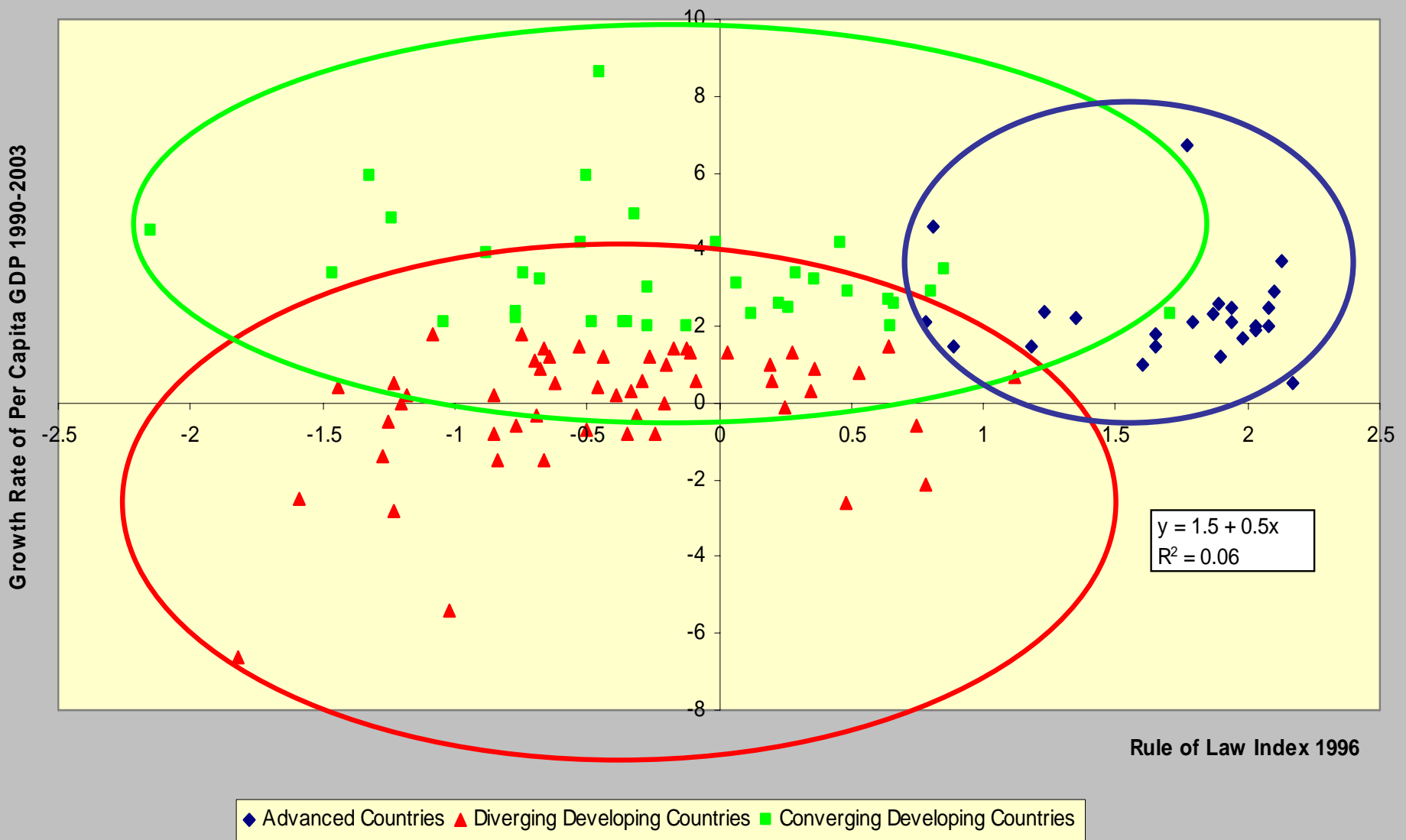




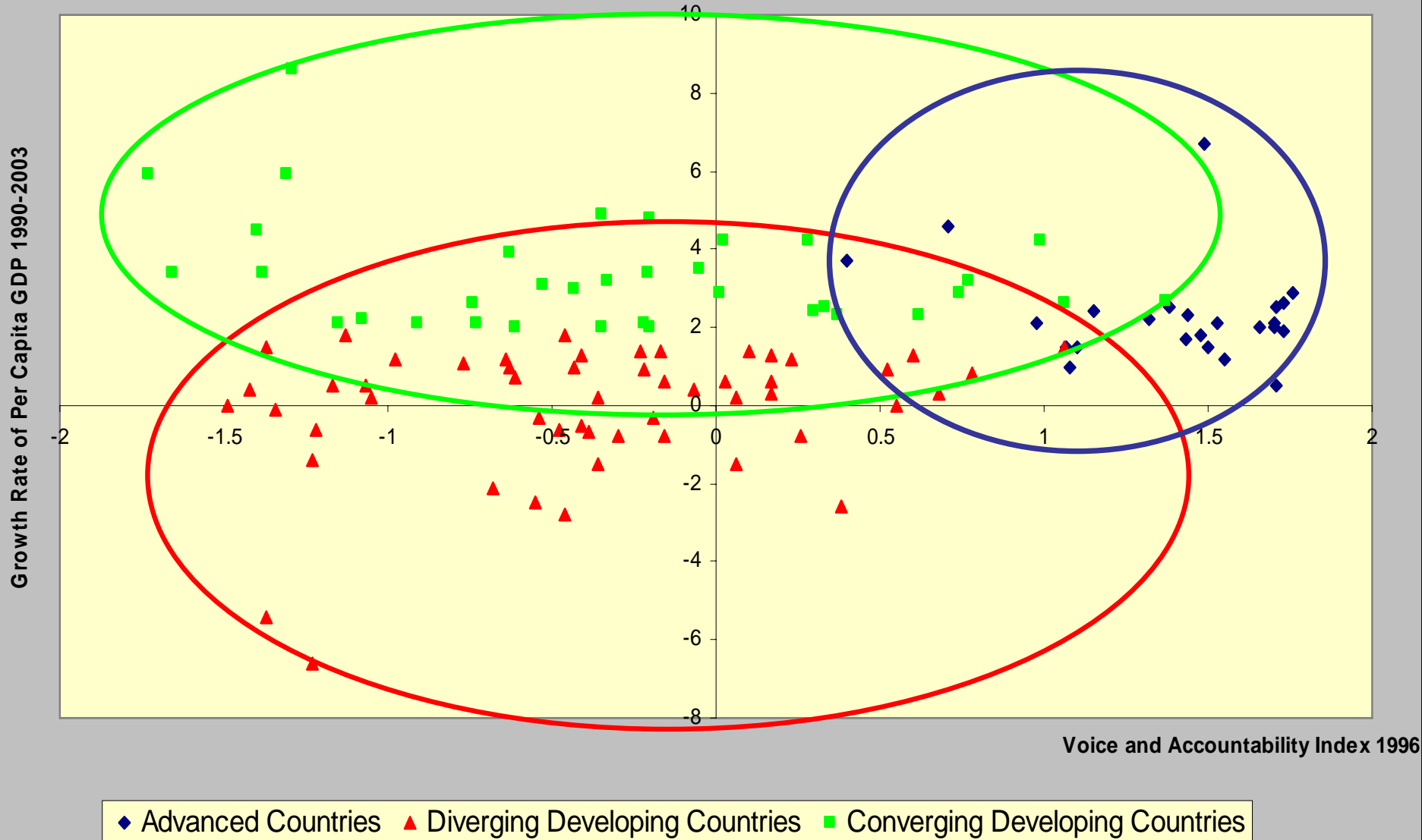


# Rule of Law and Growth

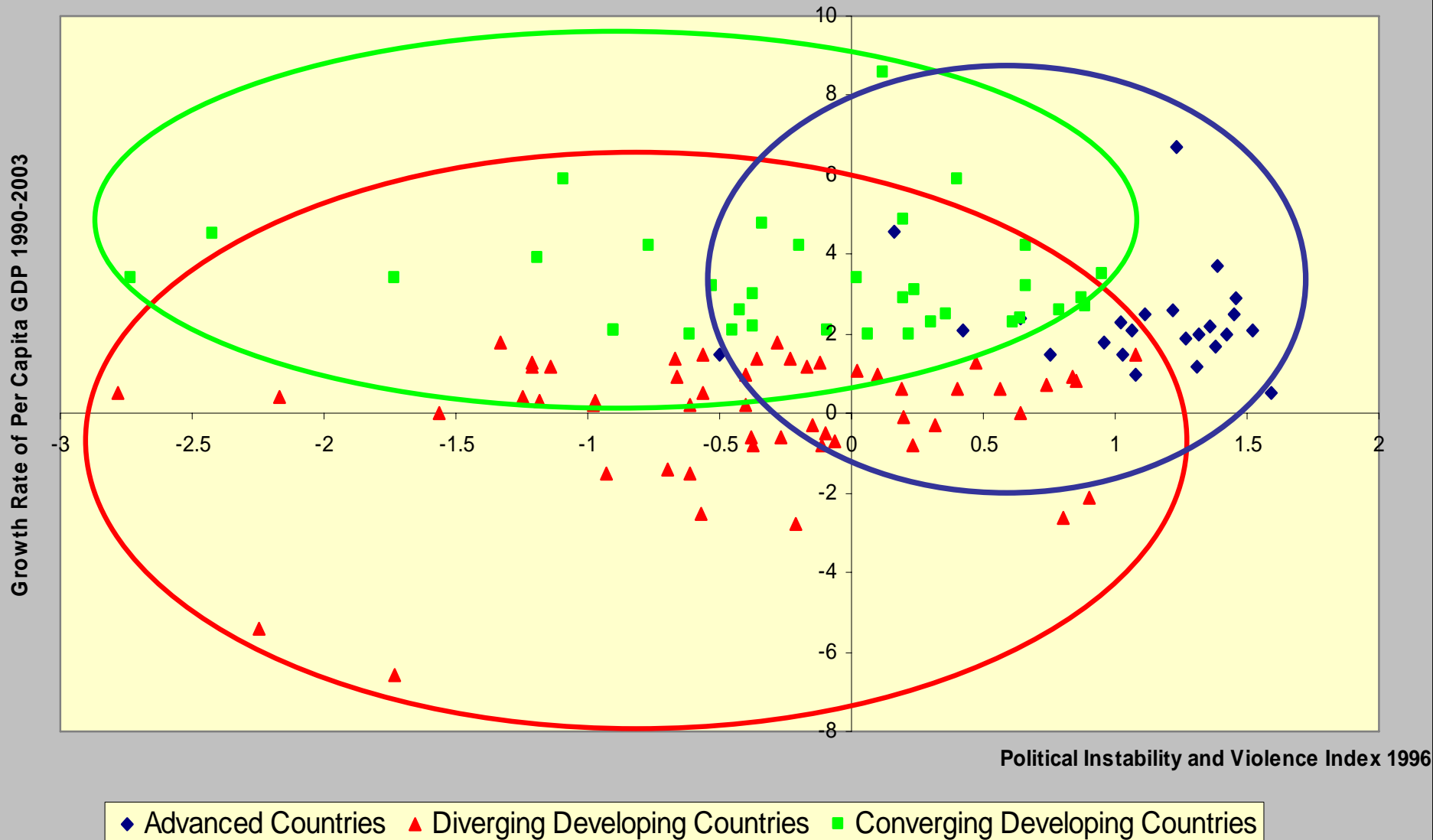
Governance and Growth 1990-2003 using World Bank Rule of Law Index  
(World Bank/Kaufmann et. al. data)

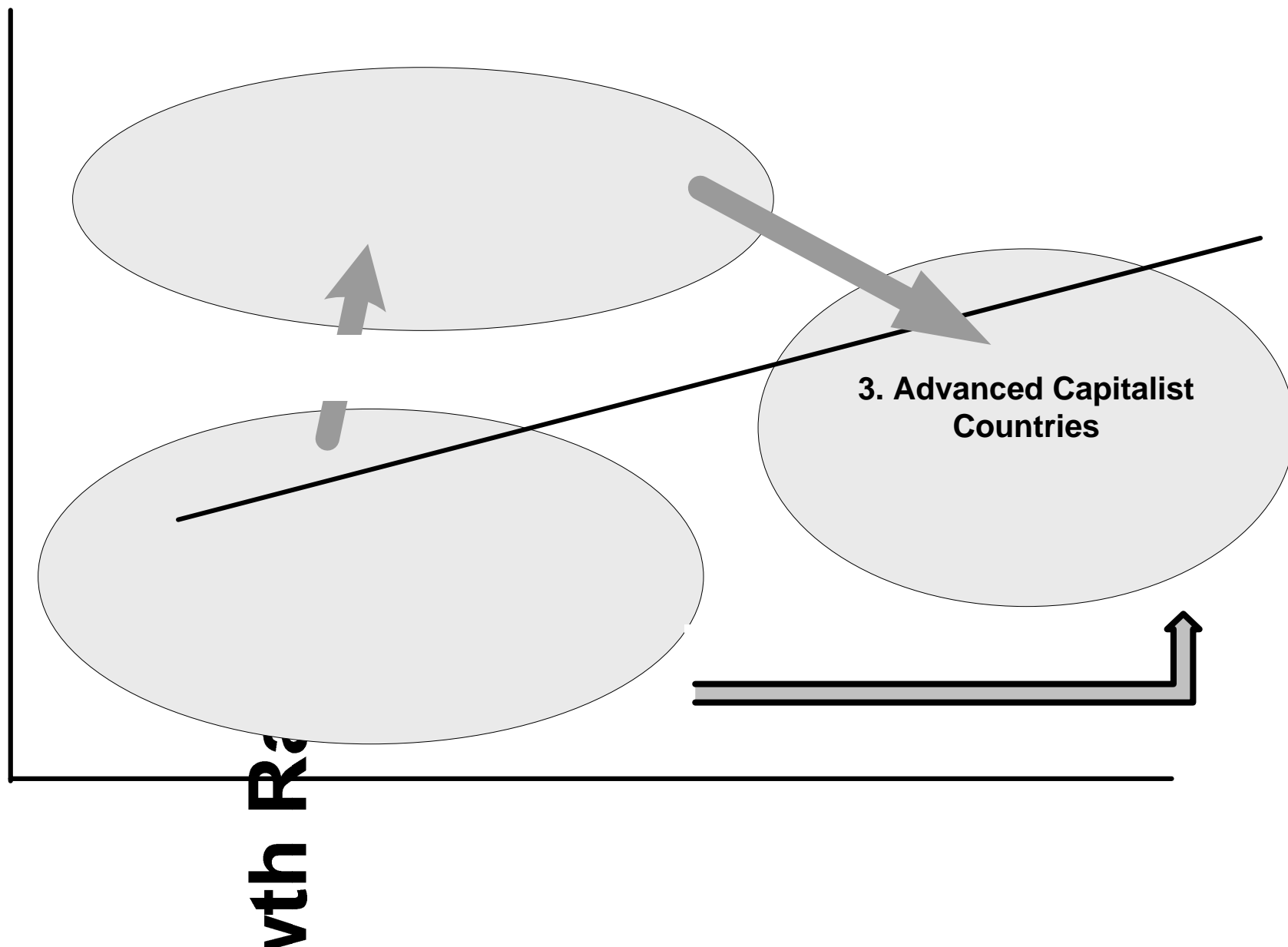


Governance and Growth 1990-2003 using World Bank Voice and Accountability Index  
(World Bank/Kaufmann data)



Governance and Growth 1990-2003 using World Bank Political Instability and Violence Index  
(World Bank/Kaufmann et. al. data)



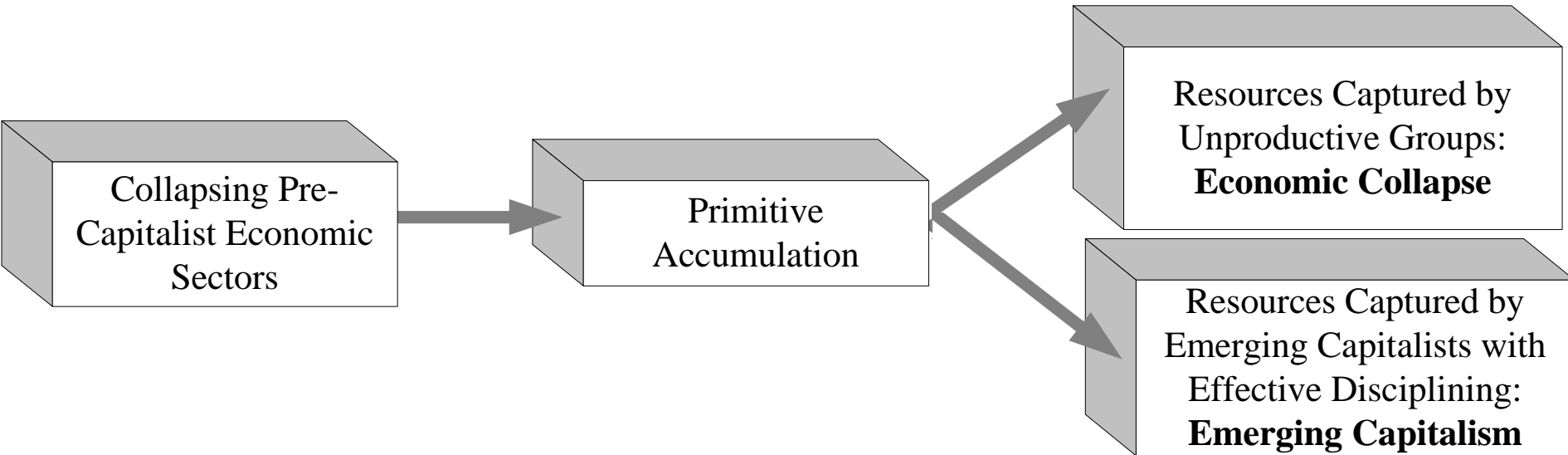


Stabilizing and protecting property rights is costly and assumes that most assets are already productive

The emergence of new classes of entrepreneurs is deeply divisive and creates new concentrations of wealth: difficult to insulate politics from rent-sharing incentives

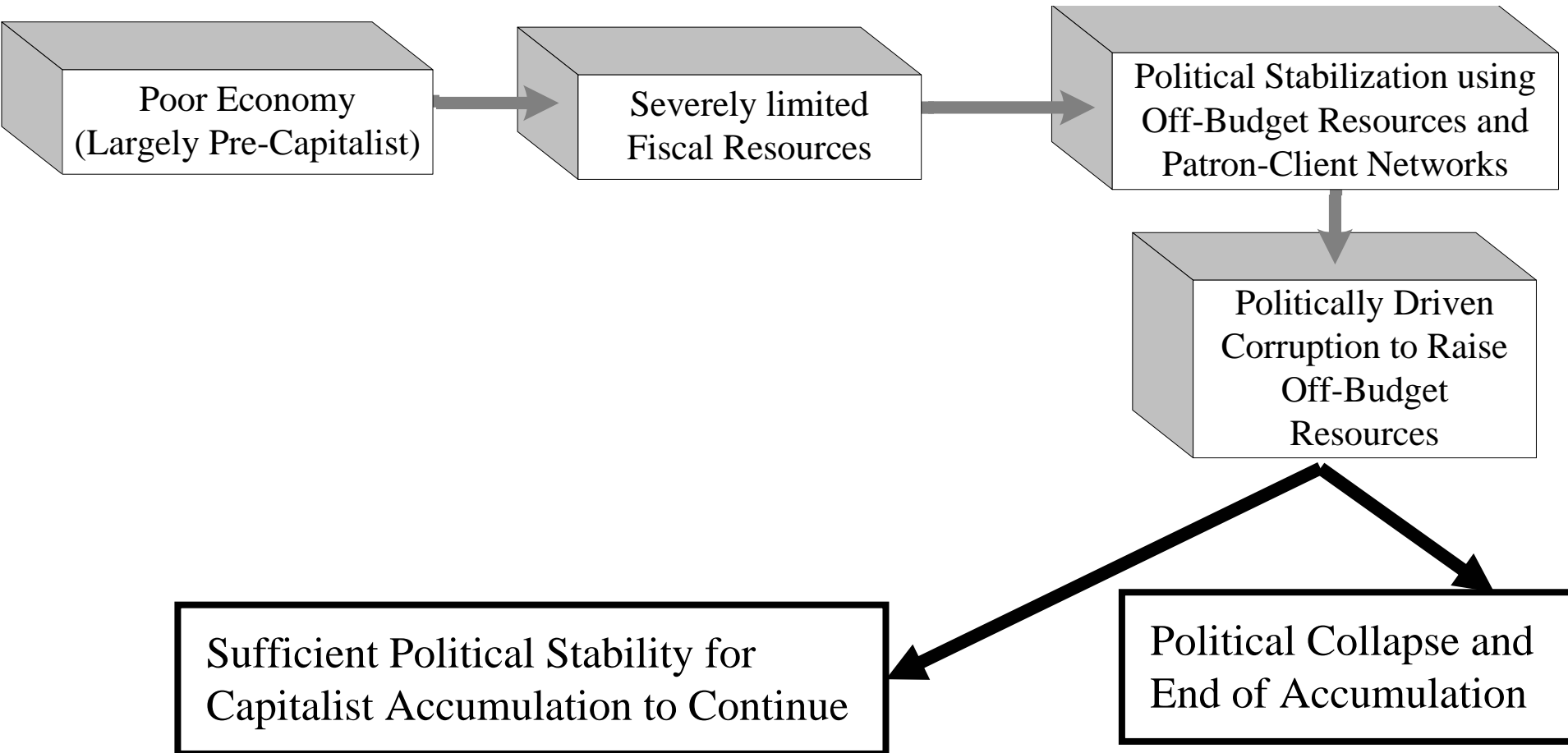
Political stabilization is expensive and often requires off-budget resource allocations

Fiscal constraints prevent improving state capabilities across the board



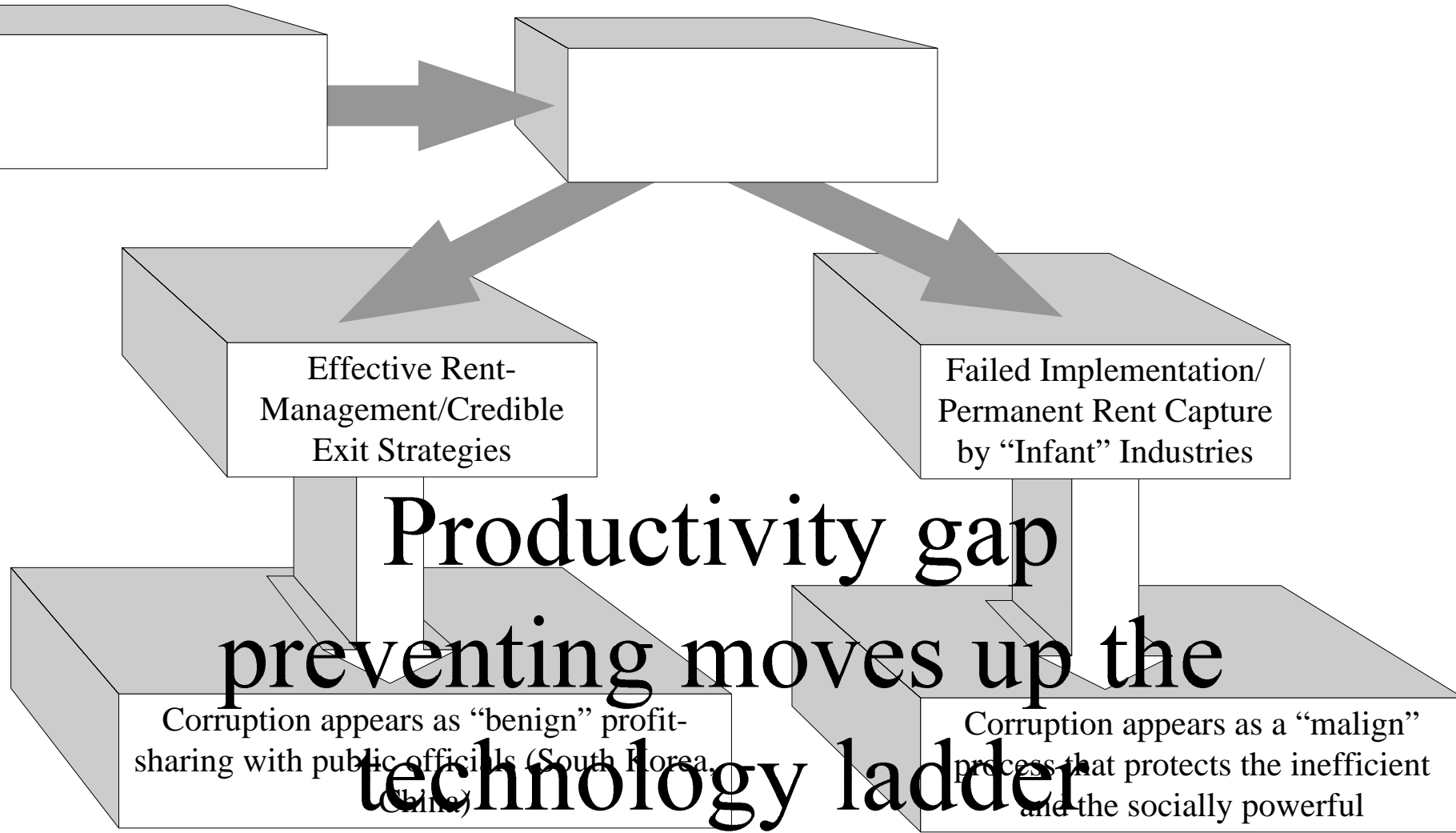
- In the consensus view, stable property rights are achieved through **credible commitment by states to constrain themselves from *ex post* appropriation.**
- Political fragmentation is not a problem as long as society can monitor public employees and prevent expropriation
- In reality, effective entrepreneurs and technologies do not exist in developing countries and **effective states have to use *ex post* flexibility to *alter* property rights and rent allocations** (Okuno-Fujiwara, and the development state literature)
- Value-enhancing enforcement requires institutional and political incentives and capabilities. The types of patron-client networks and fragmentation matter a great deal

# Politics is about patron-client redistributions





# Attempts to catch up create further problems



Corruption appears as "benign" profit-sharing with public officials (South Korea, China)

Corruption appears as a "malign" process that protects the inefficient and the socially powerful

# The Political Economy of State Capabilities

	Industrial Policy Institutions (Rent Management Strategy)	Corresponding Political Configuration	Economic Outcome
South Korea 1960s	Targeted Learning Rents	Limited political power of intermediate class factions to protect inefficient capitalists	Rapid growth and capitalist transformation
Malaysia 1980s 1990s	Public sector and MNC-led technology acquisition	Powerful intermediate classes but centrally organized after 1980  Centralized transfers delink redistributive rents from learning rents	Rapid growth and capitalist transformation
Indian subcontinent 1960s 1970s	Targeted learning Rents, Public sector technology acquisition	Powerful and fragmented intermediate class factions protect inefficient rents  Learning rents regularly become redistributive rents	Many infant industries fail to grow up  Moderate growth and slow pace of transformation

	Industrial Policy Institutions (Rent Management Strategy)	Corresponding Political Configuration	Economic Outcome
Indian subcontinent 1980s 1990s	Liberalization and slow withdrawal of subsidies for learning.	Powerful and fragmented intermediate classes remain  Growing political fragmentation	Growth led by niche sectors. Higher growth than before but limited to already existing technological capacities
Latin America 1950s to 1970s	Selective tariffs, selective credit policy	“Corporatist” alliances between industrialists, intermediate classes and urban working class  Learning rents rapidly become redistributive rents	Initial rapid growth but running into stagnation  Many infant industries fail to grow up
Latin America 1980s onwards	Rapid liberalization	Widespread breakdown of corporatist alliances	Output growth but low productivity growth  Reliance on commodity production

- Map patterns of redistributive patron-client networks that dominate politics in specific African countries
- Identify how these networks may have allowed some types of value enhancing economic transformations and prevented other types
- Identify institutional and capacity changes in the state that may allow faster and more effective transformations, better and more effective political stabilization etc.
- In some cases open up national debate and dialogue about how the organization of political power can be addressed to allow faster transformations.