

Pillars of prosperity

As the new year beckons, a timely book by LSE economists Tim Besley and Torsten Persson offers pointers to a peaceful future but warns that unhappy or fragile states come in many different forms. **Joanna Bale** reports.

"Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things." So wrote Adam Smith nearly 250 years ago. In an ambitious new book by two leading LSE economists, Smith's pillars of prosperity have been reinterpreted using the tools of modern economics to explain why some countries are rich and peaceful while others are poor and prone to political violence. *Pillars of Prosperity: the political economics of development clusters* (2011) builds on the authors' joint research programme of the past five years.

Unlike Smith, who wrote before the advent of democracy and the Industrial Revolution, Tim Besley and Torsten Persson have been able to draw powerful insights from the divergent paths that countries have

taken in the past quarter of a millennium and make some surprising predictions about supposedly stable states like China.

As famine once again stalks the Horn of Africa, it is clear that, for most of the world's poorest countries, economic development is not about resources but about the effectiveness of the state. Weak, corrupt governments embroiled in civil war are unable to prevent or respond to food crises caused by severe drought despite sophisticated early warning systems and foreign aid.

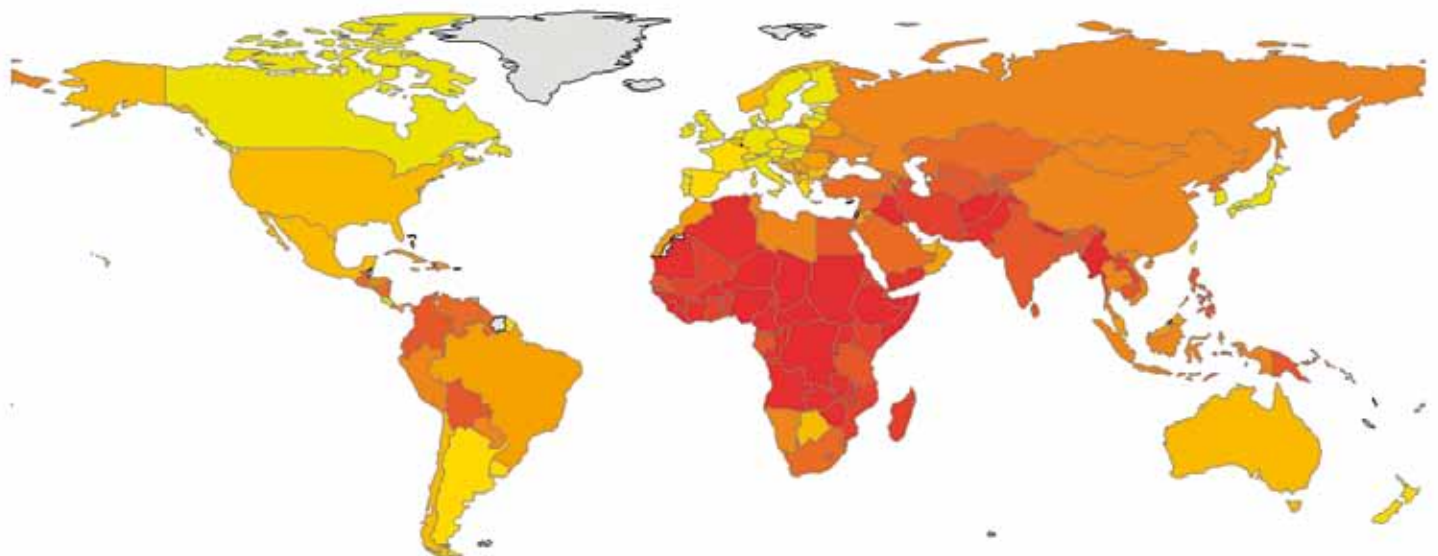
To achieve the first pillar of prosperity, peace, the authors emphasise the avoidance of repressive government and civil conflict. The second, easy taxes, they argue, refers not to low taxes but to a tax system with widespread compliance that collects taxes at a reasonable cost from a broad base, like income. The

third, tolerable administration of justice, is about legal infrastructure that can support the enforcement of contracts and property rights in line with the rule of law. The authors show that countries tend to enjoy all three pillars of prosperity when they have evolved cohesive political institutions.

According to two recent studies, around 40 to 50 states suffer from serious weakness or fragility, with the strongest concentrations in sub-Saharan Africa and South and Central Asia. Of course, there is no general agreement on exactly what defines a weak or fragile state.

Besley and Persson's analysis of Polity IV, a 2009 study of state fragility, argues that, while it is strongly related to the prevalence of civil war, repressive government is generally given insufficient prominence. A deeper understanding of state fragility, they argue, requires a

Polity IV state fragility index



"Heat map" for greater state fragility – deeper shading represents greater fragility
(see www.systemicpeace.org/polity/polity4.htm)

framework that explicitly considers government decisions that determine state effectiveness and the use of political violence as a tool for retaining or acquiring political office. Although things are much more complex in practice, they put forward the idea that the world can usefully be categorised into three kinds of state: the common-interest state, the redistributive state and the weak state.

In a common-interest state, such as the UK or Sweden, government revenue is mainly used for common purposes and there is considerable investment in state effectiveness. Willingness to invest in this is largely immune to political instability because ruling groups do not have a strong motive for using the state to serve their own private interests, or find it difficult to do so.

In a redistributive state, like China or Saudi Arabia, government revenue is predominantly used to please the government's own support groups, those in power being relatively unconstrained by political institutions. Ruling groups still invest in creating an effective state, but only if there is sufficient political stability to make this worthwhile. The motives are predominantly based on maintaining power rather than on the common good. Thus, the expression "redistributive state" has nothing to do with the traditional notion of redistributing wealth from rich to poor.

In a weak state, such as Haiti or Somalia, institutions are non-cohesive and political instability is high. Under these conditions, those in power have no incentive to invest in creating an effective state because the resulting benefits are likely to be appropriated by future ruling groups.

This framework, which emphasises the importance of a cohesive state, may offer an interesting perspective on the Arab Spring, where repressive regimes could either be replaced with peace or civil conflict. Besley comments: "The Arab Spring is a great opportunity for the international community to realise the virtues of building cohesive institutions so that these countries move onto the path of common interests and not onto the path of fragility."

Putting things together, the authors suggest an Anna Karenina Principle of fragile states, paraphrasing the first line of Leo Tolstoy's 1870s novel: "All happy families resemble each other; every unhappy family is unhappy in its own way."

In their analysis, common-interest states are the happy families, with peace as well as high state effectiveness. As in the Tolstoy quote, the unhappy families come in many forms. This principle reflects a real, practical difficulty in dealing with fragile states.

In diagnosing state fragility and thinking about its consequences, they suggest a wider definition than is often used. It could even be used to encompass some apparently stable states like China. This is because such states continue to give a central role to the use of political violence, in the form of repression, in the allocation of political power. Redistributive/repressive states like China and Saudi Arabia are an important and interesting class

“The Arab Spring is a great opportunity for the international community to realise the virtues of building cohesive institutions”

The state space

	Weak	Redistributive	Common interest
Peace	Weak common interests Non-cohesive institutions High military effectiveness Poorly-organised opposition	Strong common interests Non-cohesive institutions Low natural turnover	Strong common interests Cohesive institutions
Repression	Weak common interests Non-cohesive institutions Low military effectiveness Poorly-organised opposition	Weak common interests Non-cohesive institutions High military effectiveness Poorly-organised opposition	N/a
Civil war	Weak common interests Non-cohesive institutions Low military effectiveness Well-organised opposition	Weak common interests Non-cohesive institutions High military effectiveness Well-organised opposition	N/a

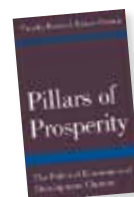
of states: while they may be developing state institutions, they may also be storing up future sources of fragility unless they can make a transition towards cohesive institutions. Until this uncertainty is resolved, a cloud hangs over their future. The risk is that, as holding power becomes ever more attractive owing to political stability and easy access to government revenue, repression will become ever more expensive and difficult due to the growing likelihood that they will be challenged for power. Some stable oil-rich states appear, however, to have been able to sustain this approach for a long period of time. And other states have anticipated these issues with judicious political reform.

Besley and Persson argue that too often the mantra of the international community has been to navigate around political constraints rather than try to move them. But just giving aid, rather than trying to change states, may be doomed to failure and could make the situation worse by entrenching the situation. The formation of cohesive political institutions is essential, they insist. However, the historical picture is far from encouraging. To illustrate this, they looked at all of the 113 countries that were created in the 50 years between 1945 and 1995 – mostly former colonies in Africa and Asia and previous members of the Soviet block. Only a small minority of these states, 27 out of 112, ever acquired cohesive political institutions. Only four countries – Israel, Jamaica, Mauritius and Trinidad-Tobago – have continuous histories of cohesive political institutions from their inception up to 30 years after independence. Of course, it is too early to tell if some of the initial adopters in Eastern Europe will continue for this long.

In their concluding remarks, Besley and Persson explain: "We make no claim to have delivered any definitive insights and much of our analysis is synthetic, building on the contribution of prior research. In this area, there is more unexplored territory than settled ground. Our hope is that this book will help open up a whole new research programme, and we invite development researchers and graduate students to join us in pursuing these issues. Whether or not this happens is the metric of success on which we would like to be judged." ■



Jonna Bale is a senior press officer at LSE.



Timothy Besley is the Kuwait Professor of Economics and Political Science, and director of the Suntory and Toyota International Centres for Economics and Related Disciplines at LSE. **Torsten Persson** is a centennial professor in

the Department of Economics at LSE, and Torsten and Ragnar Söderberg Chair in Economic Sciences at the Institute for International Economic Studies, Stockholm University. *Pillars of Prosperity: the political economics of development clusters* is published by Princeton University Press (2011).

See www.pillarsofprosperity.org