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POLITICAL INSTITUTIONS AND THE SCOPE FOR ACTION**

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Under the Thumb of History?
Political institutions and the Scope for Action

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This paper discusses the two leading views of history and political institutions. For some scholars, institutions are mainly products of historical logic, while for others, accidents, leaders, and decisions have a significant impact. We argue that while there is clear evidence that history matters and has long-term effects, there is not enough data to help us distinguish between the two views. Faced with this uncertainty, what is a social scientist to do? We argue that given the possibility that policy decisions indeed make a difference, it makes sense to assume they do and to try to improve policymaking.

Keywords: political economy, determinism

JEL: O1, N30.

At the heart of different views of political economy are different views of history. Of course, most serious scholars believe that history is important. However, there is basic disagreement about the extent to which history is ultimately deterministic. Is it subject to what Auguste Comte, arguably the father of historical determinism, called “invariable laws”? Or is history what Arnold J. Toynbee, very much a supporter of the determinist position, caricatured as “just one damned thing after another”—a series of acts and accidents, big and small, each playing out its consequences until that process gets interrupted by the next? If the state of the world is primarily determined by history and its iron laws, then the scope for policy reform is necessarily restricted and political economy becomes more about how we got here than how we can change where we’re going. If, on the other hand, much of what has happened and will happen is the product of happenstance, then political

economy can play a part of the active quest to find the best policies and political systems by helping us understand what is politically possible at each point of time.

This paper begins with a review of the determinist and the anti-determinist positions. We then observe that the data to discriminate between the two views is not only insufficient, but also unlikely to ever be sufficient. We conclude that in the interim, operating under the assumption that political systems can be made worse or better through design choices seems a safer choice.

1. Determinism

To say that determinists entirely rule out a role for acts and accidents is of course a caricature. Chance obviously plays an important in determining the exact shape things take, but more importantly, determinists would not rule that the possibility that from time to time, certain cataclysmic events occur to change the destiny of nations. Their main point is that such events are rare and that even apparently large shocks like wars, decolonization and revolutions often have no more than temporary effects on the evolution of the economy and society—the names of those in power simply tend to change. In the absence of those few truly epochal shocks it is the laws of history that decide what is to happen.

A lot of what draws people to determinism is the fact that history does seem to have a very long reach. It would be superfluous to review this literature since there are two excellent recent reviews in Acemoglu and Robinson (2013) and Nunn (2013), so we confine ourselves to summarizing the key points. The contemporary empirical economics literature in this vein starts from the key early contributions of Engerman and Sokoloff (2000) who focus on the persistent impact of factor endowment at the time of colonization on political institutions across the Americas, and La Porta et al. (1996 and 1997) who observe that legal systems set up under colonial rule tend to persist and are correlated for economic outcomes today.

Acemoglu, Johnson and Robinson (AJR1, 2001 and AJR2, 2002) take this agenda a step further. AJR1 shows that, among former colonies, those that featured conditions relatively conducive to early colonialists' existence (in other words, places where they did not die like flies) and thus were settled by large numbers, had institutions put in place that were relatively inclusive (opposite of "extractive," AJR's terminology) that persisted. As a result (at least in their opinion), these countries have better economic outcomes several centuries later. AJR2 show that the net result of this was a "reversal of fortunes." The economies where the colonialists did not settle turned out to be the ones where there was a robust pre-colonial economy, which meant the incentives of the colonial powers were clearly to set up institutions that aided plunder from afar. The consequence is that these economies are poorer today than the poorer economies where they settled. Interestingly, Nunn (2013) emphasizes the fact that in the areas that were not colonized the opposite is true—countries that were rich a long time ago remain richer now. In other words, both geography and history matter. Geography is not destiny—grand "accidents" like colonialism can turn poor countries into rich and vice versa, but once that happened, things can be very persistent as well.

With their careful analysis of history and effort at better identification in cross-country data, these papers by AJR have inspired a large literature that has corroborated the basic empirical claims of persistent effects of bad institutions, as well as the reversal of fortune.¹ For example Banerjee and Iyer (2005), present a within-country example of such persistence. During British colonization, different districts in India got different systems of land-revenue collection, for largely accidental reasons (mainly, what institution was chosen depended on the ideology of the British official in charge of the districts and the views prevalent in Britain at the time of conquest). In the *zamindari* system, the local landlords were given the responsibility for collecting land taxes: this served to reinforce their power and strengthen feudal relationships. In the alternative *ryatwari* system, farmers were

¹ Nunn (2013), as mentioned before, provides an excellent review of this evidence, though his interpretation of the persistence of historical forces is quite different from that of AJR.

individually responsible for their own taxes. These regions developed more cooperative and horizontal social relationships. One hundred and fifty years or more after the revenue collections systems were put in place, and fifty years after all they were abolished, the areas that were placed under elite domination continue to have tenser social relationships, lower agricultural yield, and fewer schools and hospitals than those placed under direct peasant control. In a similar vein, Iyer (2010) shows that whether a particular area in India was placed under direct or indirect British rule continues to influence public good provision (though not agricultural yield) today.

Dell (2010) explores the long-term consequences of the mining *mita*, a forced labor system in place in Peru and Bolivia between 1573 and 1812. Under the *mita*, 200 indigenous communities were required to send one seventh of their adult male population to work in mines. Using a regression discontinuity design strategy based on the frontier of the region under the *mita*, Dell shows that households in communities that had been subjected to the system are 25% poorer today. Similar to Banerjee and Iyer, she hypothesizes that the main channel of this persistent effect is through its impact on land tenure and its consequences on social relations, although in this case she emphasizes the positive role of the *zamindari*-like hacienda system that developed outside the *mita* zone—with property rights that were and remained secure—but not inside. (The reason for this is that during the *mita* period the Spanish government wanted to retain control over the labor force in the *mita* region and therefore did not permit the growth of haciendas, and after the *mita* ended, no system of enforceable peasant property right was introduced in these areas, prompting a cycle of confiscation and rebellion in the former *mita* region.)

On the question of reversal of fortunes, Nunn (2008) shows that among African countries, those that were the more developed prior to the slave trades (measured by population density in 1400) had the largest number of slaves taken and have the lowest incomes today.

These examples highlight the potentially diverse mechanisms through which bad institutions have long-term effects. We now turn to a discussion of the broad theoretical approaches to the question of persistence.

1.1 Economic determinism

Karl Marx is perhaps the most famous of the exponents of a purely economic theory of history. Marx does not explain why feudalism emerged only in Europe and not in Asia, where he posits an alternative “Asiatic” mode of production—perhaps that is where chance plays a role. However, starting from feudalism he argues for an inexorable path that leads those economies to capitalism and ultimately to socialism. The prime mover here is economic competition. Competition for labor and economic control between the ruling feudal lords, who live in the countryside and control farming around where they live, and the rising merchant class, which lives in cities and mediates trade between the many feudal domains, ultimately leads to the collapse of feudalism and the rise of capitalism.

However capitalism is also doomed in Marx’s view, for more or less the same reason. Competition between capitalists for more labor and greater profits leads to both greater agglomeration of workers and more and more desperate attempts to further exploit them. The combination of the two ultimately leads the workers to form themselves into a revolutionary working class and overthrow capitalism, establishing socialism.

These economic changes are accompanied by corresponding changes in other domains of life. For Marx, social institutions like religion and culture, and political institutions like democracy are by-products of the basic economic institutions. “Religion,” as Marx famously observed, is “the opiate of the people,” but he argues capitalism needs religion for precisely that reason—to dull the pain and suffering that it creates.

Marx's approach to history continues to be very influential in economics, including among scholars who do not at all share Marx's political preferences. Acemoglu and Robinson's (2000) study of the extension of the franchise is very much in this tradition (though they add the key idea that rights can serve as a commitment device). In explaining the move towards universal adult male voting rights in the West, they argue that the elites had to extend the franchise because of the increase in the number of workers and the consequent rise in the demand for more redistribution. Faced with the prospect of increasing political unrest and the threat of revolution, the elites had to think of ways to commit themselves to greater redistribution of resources, not only in the present but also in the future. Extending the franchise was a way to do this credibly.

Doepke and Tertilt's (2009) argument for why women got the vote is in a similar vein. They argue that when the importance of human capital in the economy increases (with technological progress), men start to be willing to surrender some rights to women to ensure that children get better educated (the argument requires men to assume that women care more than themselves about children's human capital, and that bargaining power matters for household decisions). The tradeoff is between their utility today, and the utility of their offspring (children, grandchildren, and future generations).²

² Fernandez (2009) has a related, though slightly different answer to the same question: she argues that as fertility declines, men's interest as husbands (who would like to have all the property and rights) starts to conflict with their interest as fathers (who would like to protect what they bequeath to their daughters against capture by their future sons-in-law). With economic growth and a decline in fertility, the balance starts tilting towards the paternal interest, and women's economic and political rights get expanded.

However Acemoglu and Robinson diverge from Marx in one important sense. For Marx, progress was inevitable; Acemoglu and Robinson have a more pessimistic view—they believe that countries have a way of getting permanently stuck with extractive institutions, which are institutions that make it possible for a small minority to flourish at the expense of everyone else and ultimately the economy itself. The reason has to do with Robert Michels dubbed the “iron law of oligarchy,” which is the tendency of some small group to grab the reins of any organization (including entire nations) and then find ways to perpetuate itself in power. Acemoglu and Robinson argue in particular that political power allows its possessors to grab economic resources, and economic resources in turn facilitate the retention of political power, and this cycle creates an inherent tendency for economies to drift towards concentration of both economic and political power, ending in an oligarchic equilibrium with extractive institutions. Countries which start with the domination of an elite have to be very fortunate to have their ducks aligned in exactly such a way that they can escape this unfortunate fate (as were France and England).

Acemoglu and Robinson see this as the basic reason why so many countries, especially in Africa but also elsewhere in the developing world, have not been able to sustain the democratic institutions they started with at the time of decolonization. Besley and Persson (2011, Chapter 7, Table 7.1) list the six countries in Africa that became independent after 1945 and earned the maximum score for “constraints on the executive” at the time of independence in the Polity IV database. Five years later, three had already lost it and 30 years later only one (Mauritius) remained (though one of them—Lesotho—returned to democracy in the meantime).

An interesting recent literature documents how this process of undermining of democratic institutions happens. Acemoglu, Robinson and Santos-Villagran (2013) study the paramilitaries in Colombia and argue that these groups are tolerated by the political system because they have a direct influence on elections in the zones they control, and that their power seems to stem from their ability to deliver votes

to some politicians. This creates a “symbiotic relationship” which sustains an oligarchic equilibrium that is difficult to escape from.

In Sierra Leone, Acemoglu, Reed and Robinson (2013) document an even more localized instance of elite capture. They show that in places where there are few accepted “ruling” families (the list of these was established by the British colonial authorities), there is less competition between them, and those regions have worse development outcomes (education, child health, non-agricultural employment, etc.). Yet in these regions participation is also higher in citizens’ forums and other village-level institutions of popular control, suggesting that these chiefs have successfully captured the institutions that are meant to control them.³

An implication of this view is that any attempt to improve institutions would quickly be undone by the elites. Querubin (2011) provides an example from the Philippines, a country that tends to be dominated by political dynasties, some spanning several decades. More than half of elected congressmen and governors have a relative who has held elected office previously, and in 40% of the 79 provinces the governor and congressman are closely related.⁴ Querubin studies an attempt to curb the persistence of power, the introduction of term limit. He shows that at the end of a mandate-limited term, a particular person is less likely to be in power, but his or her dynasty is not. Moreover, term limits have tended to discourage high-quality politicians to challenge the incumbent until the term limit opens the field. This further strengthens incumbency, and gives dynasties even more time to build their strength unchallenged.

³ What is striking in the Sierra Leone example is that their data was collected after a civil war that was caused in part by rebellion against the power of the chiefs. The return to peace was thus also a return to traditional structure of power. In this case, there was a clear hierarchy based on traditional elite status, age, and respect, and that makes it very difficult to challenge. Even the war was apparently insufficient.

⁴ While extreme, the Philippines is not alone in having political dynasties: they are found in many other countries in the world.

1.2 Cultural determinism

This growing evidence supports the idea that something in the way countries work is remarkably stable. Dramatic historical accidents such as discovery and colonization --or rare instances of revolutions-- may change the course of history, but generally something governing human behavior has a tendency to persist through apparently major changes (such as de-colonization, introduction of democratic governments, etc.).

An alternative to economic determinism is to emphasize the importance of culture. Culture is shaped by major events and circumstances, but moves very slowly and continues to affect human relations long after the factors that made it the way it is are long forgotten. A remarkable example of such persistence is in Nunn (2008), mentioned above. He shows that regions in Africa which sent more slaves are still poorer today. Similarly to AJR2, he notes that this cannot be explained by the fact that these were poorer regions to start with, since the regions that were initially richer were more subjected to the slave trade. He also shows that those regions had worse institutions post slavery (and before colonization).

In subsequent work, Nunn and Wantchekon (2011) explore potential causal channels behind this persistence, and hypothesize that cultural norms of behavior may be at play. They observe that levels of people's trust in relatives, neighbors and government are lower today in regions where the slave trade was more active. They try to decompose this effect into one running through institutions that help sustain trust, and one coming from the level of trust conditional on such institutions. They find that both channels are at play, but that the latter seem to be quantitatively twice as important as the former. Pierce and Snyder (2012) add teeth to this argument by demonstrating a causal mechanism linking trust to economic fortunes. They observe that in regions where the slave trade was more active, firms today have more difficulties obtaining financing.

Like economic determinism, cultural determinism has a long tradition. Weber (1930) is probably the most famous exposition of the defining role of culture (in its particular expression as religion). With its emphasis on hard work and depiction of economic success as its own reward, Protestantism promoted a culture of entrepreneurship, which according to Weber, was central in the transition to a capitalist economy and the industrial revolution.

Religion can also partly explain the diverse impact of colonization on future outcomes. Several studies link differences in missionary activities across and within countries and outcomes today (see Nunn, 2013 for a detailed review), finding both direct effects of missionary activities, and differences between the long-term impacts of different Protestant and Catholic orders. In a similar vein, Botticini and Eckstein (2005) argue that the destruction of the second temple by the Romans had a fundamental influence on the development of the Jewish community. By transforming Judaism from a sacrifice-based religion to one where every male child was required to read the Torah, this promoted literacy in the community, which had far-reaching impacts in terms of economic development.

Greif's (1994) work comparing the Maghribi and the Genoese traders further illustrates how culture affects institutions. The Genoese traders had an individualist culture, which required them to develop a robust system of contract and contractual enforcement. The Maghribi relied on collective punishments for cheating and therefore did not require formal systems of enforcement arrangements. This was initially an advantage when trade was relatively limited, but eventually turned into a liability because the collectivist system did not easily extend to enable trade with people the Maghribis did not know or to larger communities.

Recent work by Aghion, Algan, Cahuc, and Shleifer (2010) emphasizes this interplay between culture and institutions: low civic-mindedness leads to a greater need for government regulation, but that in turn reduces the need for social capital accumulation and norms of cooperation and good behavior. This can lead to

multiple steady states, where culture and institutions co-evolve, and Aghion et al. (2010) do find a negative cross-country relationship between levels of trust and level of government regulations.

Of course, the causality need not always run from culture to the rest. Indeed, the example of slavery shows that institutions affect culture. Another example is suggested by Tabelini (2010), who shows a significant relationship between cultural traits today (trust, confidence, respect of effort, etc.) and institutions in the 17th-19th centuries in Europe.

2. Persistence without determinism

Persistence does not have to mean determinism. In other words, things might be slow to change, not because there is some fundamental force like economic power or culture bringing things back to place, but because of the innate difficulty getting anything at the scale of nations to change drastically. Persistence could reflect the difficulty of coordination, the problem of aligning beliefs and expectations across large populations, the challenge of getting very large numbers of people to rethink the way they are used to behaving.

A somewhat extreme but interesting example of such a coordination difficulty is the problem of perpetual civil conflict. Collier (2008) emphasizes that most of the *Bottom Billion* people in the world live in countries afflicted by ongoing or recently concluded civil wars. One reason these wars persist is because neither side trusts the other to behave in a post-truce equilibrium—basically what is to stop you from turning around and shooting me the moment I lay down my arms?

However, in a world where there is so much mistrust between groups, peace may not be much better. A simple but insightful theoretical paper by Padro-i-Miguel (2007) makes this point. In his model, there are two ethnic groups. Both groups know that their leaders are corrupt, but having a corrupt leader from the other

group is worse than having a corrupt leader from your own. In such a situation the group currently in power may prefer to tolerate its own corrupt leader because the process of toppling the leader creates instability, and instability allows for the possibility of the other group taking over.

This kind of ongoing civil conflict is horrible for those who have to live through it, however it does offer more policy options than we would have had in a world of strong determinism, because it is in everyone's interest to get out of the mess. Therefore the external intervention required to get things going could be small relative to size of the potential gains. This is what makes Collier favor interventions in troubled states, including military interventions. Examples of such types of intervention that have been tried in recent years, sometimes quite successfully, include efforts to reduce the benefits of winning the civil war by making it harder for the victors to expropriate the country's natural resources, and inviting in UN Peacekeeping Operations as a way to guarantee that the treaty terms are respected.

2.1 Leaders matter

One of the central implications of this more contingent view of history is that leaders will matter. Good leaders can provide coordination where there is discord and direction where there is drift. The example of the resurgent Brazil of recent years, with the important role apparently played by President Lula in creating a different kind of coalition and sustaining it, is often adduced as an instance of how important leaders can be. By contrast, Acemoglu and Robinson (2012, 2013) emphasize the example of K.A. Busia, prime minister of Ghana 1969-72, who despite his best intentions and adherence to external advice was unable to implement good policies due to the political pressures he faced. When he tried, he was ousted and the country fell into violent conflict, an example of the perverse direction a country can take despite a good leader.

Jones and Olken (2005) provide some empirical evidence that, in practice, leaders do actually matter quite a bit. This is a difficult question to tackle, since leadership transitions are not exogenous, and are more likely to happen when things go poorly. Jones and Olken gain some traction on the problem by looking at transitions caused by the death of politicians while in office, either due to natural causes or accidents.⁵ They argue that in these cases, the timing of the transition from one leader to the next is largely exogenous. Using 57 such transitions, they estimate that one standard deviation improvement in leader quality results in 1.5% increase in growth each year. They also find evidence that these effects are larger in autocracies and when leaders face few constraints on their authority, and nonexistent in democracies. This fits well with the traditional political agency view—where leaders in democracies do what the median voter wants, but dictators do what they themselves want—and not so well with the view that unconstrained leaders reflect bad institutions, because countries with bad institutions will have poor outcomes regardless of who leads.

2.2 Formal rules can make a difference

Formal rules do not matter in a deterministic world except in as much as they are purely expressions of the direction favored by the extant culture or the elite in power. Where things are more fluid, on the other hand, they can make a big difference.

There are recent examples of the influence of formal political rules. In India, women have traditionally been substantially underrepresented in politics, undoubtedly reflecting the strong cultural prejudice against women doing “men’s jobs” (although there have been several examples of powerful women at the national or state level). However, the 73rd amendment of the Indian Constitution adopted in 1992 required

⁵ In subsequent work, Jones and Olken (2009) study the impact of political assassinations.

that a third of the seats in the lowest level of rural government, should be reserved for women. When this law passed it was met with a lot of skepticism: detractors felt that given the structure of the prejudices, women would just end up standing as their husbands' puppets (an extremely local version of the elite capture argument!). Chattopadhyay and Duflo (2005) show that this is not true. They exploit the random assignment of these reserved seats to show that women leaders are more likely to enact policies that closely reflect women's preferences. Moreover, the leaders' influence goes beyond the allocation of public goods while they are in power. Using the same source of variation, Beaman et al. (2011) show that the allocation of public resources towards goods preferred by women persists even after women have left power. Bhavnani (2009) and Beaman et al. (2009) show that women continue to be more likely to be elected in constituencies that have been reserved women after the villages have been rotated out of reservation. This is not generally due to the same woman being reelected, so it is not an instance of a new elite being formed. Using implicit association tests and political vignettes, Beaman et al. (2009) further show that this is due in part to an improved perception of the competence of women leaders among men. Finally Beaman et al. (2012) show that the changes in the village that come from the experience of a having female leaders can be profound. They show that in villages that have been (randomly) reserved for women for at least two terms, the aspirations of parents for their teenage girls—as well as the aspirations of the girls for themselves—become closer to those for boys. Strikingly, this also affects the actual educational attainment of the girls (even though the leaders have no direct control of the school system).

Beath et al. (2013) also find that mandated female participation in community activities impacts attitudes towards women in Afghanistan, famously a country with strong traditionalist views regarding women. They analyze a randomized experiment in 500 villages in Afghanistan to measure the impact of adding special provisions aimed at promoting gender equality to a program of block grants for villages. The provisions required a gender-balanced village development council, equal participation of men and women in the elections of the council and in the

selection of development projects, and that at least one project was prioritized by women. These requirements were imposed in randomly chosen villages. The study found that not all dimensions of the role of women were affected by those requirements (there was, for example, no change in attitude regarding the role of women in society); however some things did change: there was an increase in female participation in community decision-making (i.e. the rules were followed de facto and were not just de jure) and also in production activities. The *support* for female participation in collective decision-making also increased.

So, the role of women in decision-making was improved by a mandate externally imposed by a donor that was also an invader—in Afghanistan, which seems, in many other respects, a tough nut to crack. This must raise some doubts about the immutability of cultural prejudices and the historical structures of power.

2.3 Small accidents can have big effects

In the previous instances, the policies were actually intended to increase the influence of women, and we see that they did. However, in many other cases policies end up being different for mostly accidental reasons. In a determinist world we would expect these changes to be reversed or rendered inconsequential—unless they were huge accidents like being colonized—but in a world where policies are created in a much more haphazard way, we can imagine the unintended consequences of these policies being quite substantial.

Dell (2012) gives us an interesting example—a relatively modest event, which, because of its timing, ended up having long-term consequences. She demonstrates that in Mexico, regions that were more affected by a drought in the years 1907-1910 (generally a drought period in Mexico) had more insurgency during the years of the Mexican Revolution 1910 to 1918, and therefore greater demand for land redistribution. To respond to these demands, during the last years of the Revolution, more land was redistributed in these areas. Redistribution took the form of *ejidos*, a

system whereby peasants are granted usage rights on a property that is collectively held. The ejido system is both a central mechanism for land redistribution and, increasingly, an instrument of patronage politics. What Dell shows is that regions which were more affected by the drought in the early part of the twentieth century, and thus more insurgence, are still significantly poorer today.⁶ She attributes this to the higher fraction of ejido in those regions, and hence a stronger grip of patronage politics and weaker property rights, which ended up being a barrier to industrialization. Dell's paper emphasizes the glass-half-empty result, which is that even a relatively small drought can put regions onto a permanently lower growth path. But the positive interpretation is just as interesting in this case: despite all the problems of Mexico, all it took for some regions to escape some of the endemic political debacle of the country was good weather in the early part of the twentieth century.

Hornbeck and Naidu (2012) study another temporary climatic accident with long-run consequences, the flood of the Mississippi river in 1927. In this instance, unlike in the Mexican case, the regions that were the most affected by a negative event ended up doing better. The authors compare the trajectory of counties that were flooded to nearby counties that were not. After the flood, there were widespread abuses by white farmers at refugee camps set up for those affected. This prompted a large outmigration of black farm workers and sharecroppers who never came back, effectively breaking up the traditional patron-client relationship between whites and blacks. This forced the white farmers in those regions to modernize agriculture and increase capital intensity, since they could not rely on cheap labor anymore. In 1970, affected regions were considerably more mechanized than non-affected regions, but land values were not affected, suggesting that was not a land-equality effect that raised wages but rather the shift to a different equilibrium with higher

⁶ She does not report the reduced form estimate of drought on income today, but the instrumental variable estimate (with rainfall as instrument) implies that municipalities which, for this exogenous reason, had some insurgent activities are 30% poorer today than those that did not.

wages and mechanization, a consequence of the black exodus promoted by the flood experience.

2.4 The (beneficial) effects of fighting wars

In several important books and papers, Besley and Persson make the point that wars are a particularly interesting example of a temporary shock that has long-term consequences.⁷ Their primary interest is in the role of fiscal capacity in development. All countries that are developed today have managed to form fiscal apparatuses to raise enough taxes to provide public goods and to redistribute. They are able to do so, in Besley and Persson's view, because the nations have agreed-upon goals and institutional constraints concerning what the money can be spent on.

In their basic model, Besley and Persson have in mind a world where there are two groups and two time periods. In the first period one of the two groups is in power. This group can raise funds and use them to spend on public goods or redistribution towards some group (including, obviously, their own). They can also, at a cost, invest in fiscal capacity, which will allow them to raise more funds both in this period and the next (whoever happens to be in power next period). Depending on parameters' values, a country can end up in a "common-interest state" where current and future revenues are mainly expected to be used in the common interest, a "redistributive state" where resources will be redistributed to the group in power and the government will invest in fiscal capacity if they expect to be in power in period two (and therefore continue to enjoy the redistribution), or a "weak state" where political instability is high and no incumbent invests in fiscal capacity. This model is then extended to take into account legal capacity (this includes the

⁷ We rely on their book, *Pillars of Prosperity* (2011), as well as Besley and Persson (2008, 2009, 2010 and 2013).

protection of property rights against predation both by other private individuals and by the state).

The key question for Besley and Persson is how a country ends up with a common-interest state. External wars are important for them as critical factor in creating common goals. Pursuing this hypothesis in a cross section of countries, they find that the ones that have faced more wars in the past do indeed have both a greater share of taxes in the GDP and stronger protection of property rights. Besley and Persson (2013) emphasize one specific but telling example by examining data from 47 countries about the introduction of direct withholding of taxes from wages (a discrete investment in fiscal capacity). They show that the 19 countries that participated in WWII were more likely than the rest to have direct withholding in place after 1945, whereas they were equally likely to have had it before the war.

On the other end of the spectrum, states that have easy access to resources (either natural resources or foreign aid) have limited incentives to invest in fiscal capacity. This is what Besley and Persson contend was the key problem with a lot of newly independent African states. The effect was heightened by the facts that the Cold War superpowers were happy to be generous with aid (especially military)—which obviously strengthened the hand of the African leaders currently in power—and that many of these leaders had emerged from the independence movement and therefore started out with a lot of support. These leaders neither invested in fiscal capacity nor in the rule of law or other cohesive institutions (Besley-Persson's term) that would force them to share the rents available to them.

However, this left the excluded groups with little choice but to revolt, and eventually many of these countries ended up with insurgencies, repression and often outright civil wars. The instability thus created further discouraged investment in fiscal capacity since the current decision-makers were no longer sure they would be around to enjoy the fruits. However, it may also ultimately have set off a more salubrious dynamic. Instability gives those currently in power incentive to set up

institutions that will protect their access to public resources even when they are out of power—in other words, there is some incentive to move towards more cohesive institutions. In support of this view they cite the result in Jones and Olken (2009) who compare countries that had successful and unsuccessful assassination attempts on the leader and show that successful assassinations are often followed by civil war and a period of instability, but also that they are more likely to lead to a transition to democracy. Besley and Persson interpret this as showing that instability promotes a move towards more cohesive institutions and therefore less instability and stronger incentives to invest in fiscal capacity.

Interestingly, their data shows a reduction in both civil wars and repression, starting in the late 1980s. Taken together, this offers a more contingent (less determinist) and ultimately more optimistic interpretation of what happened in Africa in the post-colonial era. We might ask, for example, whether things would have been different had there been no Cold War.

3. A perspective on political economy?

Where does all of this leave us? Does history mainly roll forth following its own powerful logic, liable to be knocked off that course only by some massive shock to the system? Or is there a lot that is left undermined by these grand forces and therefore up for grabs? Can we or can we not make our own history? The answer to this question is central to our perspective on policy—if history is determinant, our interventions can be useless or even counterproductive.

Unfortunately, like many important questions, it is not clear this one admits an unambiguous answer. All the evidence we reviewed in this paper suggests a strong (and persistent) role for historical events in shaping institutions and political and economic phenomena. But as we pointed out earlier, there is a key difference between the views that insist on historical determinism and views that emphasizes more the co-existence of different potential equilibria that are more or less “on a

flat,” in the sense that where those societies end up is partly a result of some fleeting pieces of good or bad luck, and partly a result of choices that people made without any particular compulsion from history or culture or institutions.

To illustrate the problem, consider the case mentioned earlier, where the purely accidental fact of flooding in 1927 had persistent impact on the social and labor market equilibrium of a particular county in the South and the organization of production. The historical account given by Hornbeck and Naidu—which emphasizes the poor treatment of blacks in refugee camps and the ensuing shift in the attitude of black leadership regarding migration—is certainly consistent with an explanation in terms of fragile social equilibria that can easily be shifted, but it does not prove that such shocks happen often. It could also be that such accidents only matter when society is close to a tipping point anyway, and that the floods would not have caused any major change in the South if they had come earlier or later, or not taken place in the US where there was a possible escape route for the black population.

Conversely, the evidence that extractive institutions tend to persist and be correlated with economic performance, even through nominal changes of governments and formal institutions, is also based on relatively little effective data. AJR1 and AJR2 present a cross-country regression in a sample of former colonies, and do indeed show strong persistence of institutions and large impacts on growth. But they are in effect looking at one event, the colonization by a few European countries during a specific period in history, based on a specific ideology and a set of goals. Hence, they are comparing different countries’ experiences within the set that was effectively colonized. Most of the other papers we cite in support of institutional persistence in the first section use different episodes of the same colonization era, so in a sense they make the same point: the actions of colonizers have long-lasting influence.

Another key empirical issue is whether the primary source of the persistence is institutions. There are clearly some examples that give a central role to institutions. In particular, Banerjee and Iyer (2005), and Dell (2012) show that areas that started with the same culture before colonization, and in some ways even after (since they were colonized by the same people), have different outcomes today because of particular institutional choices made by the colonial powers. While culture was likely affected by these changes in institutions, and these cultural shifts may have played an important role in the persistence of change, the main initial driver had to be the institutions.

But these examples clearly do not rule out a more central role for culture in other examples. Glaeser et al. (2004) argue that nothing in AJR1 tells us that the impact of settlement by the European powers is due to institutions, and not to something else. For example, early settler mortality and the resulting settlement patterns are also correlated with human capital that the settlers brought. Of course human capital investment is also influenced by the quality of institutions, so we are left with the riddle of whether the human capital of the settlers (their culture) is what drove the good institutions or the other way around. It is not clear that this debate can have any final resolution.

Furthermore, even in some of the cases where a channel can clearly be established, it does not necessarily follow the logic of the consolidation of power in the hands of the elite. For example, Banerjee and Iyer's study shows that the system of tax revenue collection set up by the British in India continues to affect outcomes today. But the innovation that the British introduced was the individual-responsibility system, not the pro-elite zamindari system, which was the old Mughal system (although like the rest of the Mughal Empire, it had crumbled away by the time the British colonized India). In this case, it is probably fair to say that the British made the system *more* inclusive by introducing the individual responsibility system, and

that persisted.⁸ This stands in contrast to Acemoglu and Robinson's model, since India was an area of high settler mortality area and there was relatively little direct settlement.

In summary, with the exception of the pure culturalist view, which may be a bit of straw man, there seems to be very little scope for using regression analysis to draw sharp distinctions between these theories. It is certainly the case that elites wield disproportionate power in the world, and culture does impose important constraint on what is possible; but it is hard to tell the extent to which these forces are dominant rather than merely being in contention with the forces of will and chance. Nor is it clear whether, even in the most ill-favored places, we can be sure that the forces of politics or culture always act to strangle development.

What is a pragmatist supposed to do, given that we cannot resolve this issue on purely empirical grounds? Should she or he give up trying to make things better because any effort could end up helping the bad guys? Or is the right approach the more naïve one where, for the most part, you just act according to what you *prima facie* think is right, without begin overly strategic? In the rest of this paper we offer some tentative thoughts suggesting that the naïve approach may be the right one, except in very special situations (say, where it is totally evident that you are playing into hands of the "bad guys").

We begin by observing that, contrary to what the rather fatalistic view of history that is a part of the modern revival of determinism would suggest, economic and social outcomes have been improving for most people in the world, including the poor in developing countries. The grip of the elites may not be nearly as tight as these theories hold. This view is reinforced by direct evidence that elites do not control all that much, as well the fact that many rather modest interventions into political institutions seem to be able to successfully and durably relax the grip of the

⁸ This is of course consistent with British colonization having been a disaster for India overall.

elites. An agenda that focuses on the identification and implementation of necessary reforms, both economic and political, therefore offers a possible way forward, the depredations of history notwithstanding.

3.1 Outcomes have been improving (even in “bad” countries)

While many unfortunate things happened in the twentieth century, it is not clear that there is warrant for the profound pessimism that the determinists bring with them. Kenny (2011) forcefully makes the case in his book, *Getting better*.

Take infant mortality. Between the end of the 1960s and beginning of the 2000s, Sub-Saharan Africa’s disaster years, the years of rampant kleptocracies and murderous dictatorships that Acemoglu and Robinson write so eloquently about, infant mortality in Sub-Saharan Africa fell by almost a third. Between 1990-2010, four of the five countries that showed the biggest absolute decline in infant mortality were in Sub-Saharan Africa, and they included two countries, Sierra Leone and Liberia, which had ongoing civil wars, and Nigeria, famous for both its rampant corruption and its recurrent insurgencies.⁹

One possible response to these examples is that they are special because health is special. There is so much international action in health—vaccines are developed in the West and are then provided more or less free to poor people in poor countries through institutions like GAVI—that the national context does not matter. We don’t think that this is true. Having worked with government health bureaucracies in India, we know very well vaccine availability is only part of the game, but other examples might be more compelling.

One of the most interesting examples is what has happened to the Indian caste system, surely a canonical example of the kind of cultural and economic structures

⁹ <http://www.mercatornet.com/demography/view/9694>.

that elites build to sustain themselves in power. When India became independent lower castes—particularly the former “untouchables” who came to be called the “scheduled castes” (“SCs”) and the “Scheduled Tribes” (“STs”) after the schedule of the Indian constitution where they were listed—were hugely disadvantaged in all possible respects: education, occupations, access to public goods, access to positions of power. The Indian constitution recognized this historical discrimination and over the years, especially starting in the 1970s, the state adopted a rhetoric of universal access to public goods and the elimination of poverty, and put in place affirmative action policies to try to improve the access of SCs and STs to education, employment, and political positions. These policies are still in place today, which may suggest that they have dramatically failed.

But in fact, India has been characterized by a fairly rapid convergence of the economic fortunes of these groups (Hnatkowska, Lahiri and Paul, 2012). There was both a significant convergence in years of education between the two groups and median wage premium of non-SC/STs relative to SC/STs has declined from 36 percent in 1983 to 21 percent in 2004–2005 (while the black-white wage premium in the US seems steady around 35 percent). There was significant convergence in consumption level as well. The authors estimate that the convergence in education levels, which was probably at least in part due to aggressive affirmative action policies, explain a large part of the decline in the wage premium. This was in the context of a broad overall decline in poverty, which means that absolute levels also went up substantially for all these groups.

This evidence is complemented by evidence on public good access. Using data on 500 parliamentary constituencies from Indian censuses, Banerjee and Somanathan (2007) shows that there was a strong convergence in access to public goods between 1971 and 1991. In 1971, areas with a concentration of SCs and STs did worse across all types of goods. By 1991, there was a dramatic expansion in rural infrastructure, primarily benefitting the areas that started at a lower point, in particular areas with lot of SCs. This is not just a mechanical effect of universal

coverage, as the coverage is still far from universal for a number of the public goods they consider, and the convergence is observed in those as well. The authors argue that this convergence is a result of the pledge of universal access the state made in the early 1970s, as well as an important realignment of the political influence of these groups.

The point is not that the influence of caste has completely gone away. Banerjee et al. (2013) find, for example, that caste-based preferences are still a very strong influence on who marries whom.¹⁰ However unlike in the past, what is valued is not marrying up in the caste hierarchy, but rather marrying within one's own caste. Caste has become a form of identity that its holders proudly proclaim. This has had profound and not necessarily always desirable consequences for politics in India. Banerjee and Pande (2009) present a case study for the Indian State of Uttar Pradesh (UP), home to 166 million people. At Independence, the Congress Party dominated UP politics, and it had mostly an upper-caste leadership (Jaffrelot, 2003). The congress hegemony was more or less unchallenged until after 1984, and up to that point the main opposition parties were also upper-caste dominated—there were SC legislators, but they typically ran in seats reserved for SCs. Things started changing in the 1980s. In 1984, an SC party, the BSP, was formed. The party's rhetoric emphasized the caste difference and used evidence of elite dominance as an argument to win support ("the rule of the 15% over the 85% cannot last"). A second low-caste party was formed in 1992. Since then one of the two parties, or sometimes both, have been a part of the UP state government. In 1995, a low caste-woman, Mayawati, became Chief Minister of UP.

The rise of the low-caste parties and the "ethnicization" of politics in UP is not necessarily only (or at all) a good thing. Banerjee and Pande argue that this went

¹⁰ However they also show that because the caste groups are broad enough and caste-based inequality has declined, there is essentially everyone you might have married within your caste group. As a result, although the willingness to pay to marry within caste is very high, the preference for within-caste marriage essentially does not affect who marries whom in terms of the other characteristics.

along with a lowering of the quality of the candidates in places where there is a clear numerical dominance of one group over the other. This takes the rather extreme form of very corrupt or even convicted criminals able to run for and win elections. The point is that it is not possible any more to say that a traditional elite group is running UP (formally or informally). This has been replaced by a very competitive, if sometimes dysfunctional, political system.

Elsewhere in India there are definite signs of an erosion of traditional authority in local politics. When the nationwide workfare program “NREGA” was launched in 2005, many were worried that it would be captured by powerful local elites, who would now find it worthwhile to win control over local governments in order to control the jobs program and extract both economic and political rents. In fact, in Rajasthan Banerjee et al. (2012) document remarkably low incumbency rates among local politicians post NREGA. 46% of those who are eligible to run for election run again and only 6% are elected. In other words, the chance for an incumbent who chooses to run to be reelected is almost exactly the same as the chances of *any* other candidate in the election (in an average election there are about seven candidates). Furthermore, a very simple pre-election campaign emphasizing the importance of picking good candidates as local representatives and their role in the good functioning of the program reduced the incumbents’ probability to run again from 46% to 19% and their probability of winning to just 3%. This is almost the opposite of a state of rampant local elite capture: there seems to be not enough elite persistence in this context!

India is, of course, just one country, albeit a very large one. But the evidence of change is everywhere. Bangladesh, a poor Islamic country with many of the anti-girl prejudices shared across much of South Asia, where in 1971 only 11% of women were literate compared to 25% of men, now has a higher proportion of girls in secondary school than boys (Hussain and Naumi, 2010).

Another particularly interesting example is the decline in inequality in Latin America over the last 10 years (Lustig, Lopez-Calva and Ortiz-Juarez, 2013). Overall the Gini coefficient (a standard measure of inequality), declined from 0.530 to 0.497 in the region while it was increasing in the rest of the world, and it declined in 13 of the 17 countries for which they have reasonable comparable data. Since Latin America is one of the “poster children” for the narrative of inequality fueled by poor governance and elite capture, this is particularly telling. Looking in detailed at the case studies for three countries (Argentina, Brazil and Mexico), the authors attribute the decline in inequality both to a decline in the premium on skilled labor and to redistributive policies. Mexico was the leader in establishing the very popular conditional cash transfer programs, and Brazil has a successful one as well.¹¹

Of course, we are ignoring the counterfactual here. Things could have surely improved even more. But it is striking that these profound shifts can happen—the caste system transforms itself, females surpass males in education in an Islamic society, infant mortality drops in the middle of civil wars—without the apparent protection of good institutions or helpful cultures.

3.2 And elites don't always capture (that much)

In Indonesia Alatas et al. (2013) study the extent of elite capture in targeted transfer programs. They use data from 400 villages on who were the beneficiaries of three programs—a cash transfer, a transfer program that offers subsidized rice and a health insurance program—and show that while the formal village elites (i.e. elected representatives, etc.) do favor their relatives in the allocation of these programs, the net welfare loss is very small (less than 2% of the loss from using the bad quality data that the government uses to target). The reason is that the elites favor just a

¹¹ Of course, this does not imply there are no issues left in Latin America or in these three countries in particular. The recent discontent in Brazil showed that even the apparent success of the Lula-led policies combining economic reform with redistributions is much more fragile than might have been believed.

few people and these people tend to be pretty close to the poverty line. These results were confirmed by the outcome of an experiment where the elites were given free rein to decide who would get some quite large (\$150 a year per household for six years) cash transfers.

The point is not that these elites are particularly honest—as Olken (2007) shows, they are quite happy to steal from the government’s road construction projects. However, radically altering the distribution of social transfers (as against favoring their near-poor relatives) is perhaps not in their interest.

This result is important because Alatas et al. (2013) also found that the potential beneficiary communities for these transfers much prefer the elite to be doing the allocation over the government bureaucracy, and the evidence that they are not somehow being hoodwinked by the elites makes this all the more attractive.

3.3 Politics (and culture) can change too

In the determinist’s world, politics and culture change at their own pace. There is, however, growing evidence that relatively modest interventions can have quite an immediate impact on political outcomes and cultural attitudes. This can be very important if we live in world where change does not happen because of inertia, because then we would expect those beneficial effects to persist for the same reason and, moreover, such interventions could set off a positive dynamic that could make a large difference in the long term.

A first class of such interventions focuses on the mechanics of voting. At least two studies show that they can have important impacts. Fujiwara (2012) studies the impact of the introduction of electronic ballots in Brazil. Electronic ballots were primarily introduced to help counting votes more rapidly, but they had an additional, perhaps unintended, impact. The paper ballot required the voter to copy down the number of a particular candidate on to the ballot. This led to many errors

and invalid ballots. Using two regression-discontinuity designs based on the fact that originally only large municipalities were selected for the reform, Fujiwara shows that the electronic process, which offered immediate validation of one's choice, greatly reduced the number of invalid ballots. Since the invalid ballots were more frequent among the poor and illiterate, the reform changed the composition of the actual electorate, and of the people elected: in areas that gained more valid votes the elected representative were more likely to be less educated themselves (which probably indicates that they represent the poor). In those municipalities, spending decisions and health outcomes were also affected: more was spent on public health care (a clearly pro-poor expenditure in Brazil) and pregnant women were more likely to seek prenatal care.

Callen and Long (2013) set up a randomized experiment to try to prevent fraud at the stage of adding up of votes in Afghanistan. To measure fraud in the 2010 election they made sure that at each voting station, the provisional vote tally sheet was photographed, and then compared it to the reported total for this station. They found that fraud at the adding stage was rampant: there were differences in 78% of the 471 polling stations in their sample, and candidates connected to officials in charge of doing the adding received a disproportionate share of the fraudulent votes. In addition, the authors implemented a randomized experiment to discourage fraud: in a randomly selected subset of the polling stations, they sent a letter in advance announcing that the comparison using the photos would be done. They found that the intervention reduced aggregation fraud considerably, and that the loss of votes was for politically connected candidates was disproportional (they lost about 25% of their "votes"). Candidates connected to the officials in charge of aggregation in their constituency also lost votes disproportionately.

A second class of interventions focuses on voter mobilization behind the broad message of respecting the spirit of democracy. Several studies, based on randomly assigned interventions, have shown that this can influence the way people behave

and vote. Banerjee, Green, Green and Pande (2009) show that in Uttar Pradesh, puppet shows and public meetings encouraging people to vote on issues rather than caste reduced caste-based voting by nearly 15%. Collier and Vicente (2011) show that a campaign against political violence in Nigeria did reduce reported incidents of violence and affected the way people claim to vote. Aker, Collier and Vicente (2010) show that in Mozambique, sending voters SMS on their rights before the elections increased voter turnout. Fujiwara and Wantchekon (2013) find that in Benin, encouraging discussions over a concrete “public goods” framework brings in more votes than a traditional clientelistic message, at least for the candidates that are not dominant in a particular constituency. All of these experiments, conducted in very different settings (from a well established democracy in India to much more unstable contexts in Mozambique and Nigeria), suggest that specific interventions can make democracy work better.

A third class of intervention seeks to affect voting outcomes by improving voter information. Voters in developing countries often have very little information about their candidates, partly because there is relatively little local media and many people do not have access to what media there is since a lot of them do not own televisions and are not comfortable reading. Banerjee, Green, Green and Pande (2009), in the study mentioned above, hypothesize that the reason why many people vote on caste lines is not so much that they have strong pro-caste preferences, but that they have so little other reliable information about the candidates to go on. At least caste is something they know.

Given this, it is not surprising that informational interventions not only affect turnout, but also how people vote. Ferraz and Finan (2008) study the impact of corruption audits in Brazil. Municipalities are randomly selected every so often to receive a thorough audit of their finances. The results of the audits are shared with the media and generally widely publicized. Ferraz and Finan compare vote shares for the incumbent in municipalities where irregularities were found to those for the incumbent where none were found. If the audit was held just after the election,

there is no difference. But if the audit was held just *before* the election, the incumbent got many more votes in municipalities that had not had seen irregularities. This shows that voters were able (and willing) to punish corrupt politicians when they had the information. Banerjee, Kumar, Pande and Su (2010) find that giving voters information about their legislators' official performance (attendance rate at committee meetings, etc.) through newspaper report cards helps candidates who did their job relative to those who did not. The Aker, Collier and Vicente (2010) paper mentioned above had a treatment where a free newspaper was distributed to the voters, and also found that increased accountability votes.¹²

4. In conclusion: what does all this add up to?

For determinists all this good news exists precisely because it does not matter. If the ruling elite (or the dominant culture) has permitted change to happen it is precisely because it not worth their while to fight it. This is somewhat equivalent to the Bauer's paradox on foreign aid (the only places where you can effectively give aid are the places where they don't really need it). In this view, if the upper castes in India consent to allow the lower castes access to education, it is probably because they know that they won't win the fight to keep it from them; if the elites in Indonesia choose to not steal too much from antipoverty programs, it is probably because they have bigger fish to fry; the campaign in Nigeria might have discouraged electoral violence as a part of some local experiment, but if it was done on nationwide scale and the ruling elite really needed violence to perpetuate its hold on power, the campaign would have probably been shut down.

¹² All these studies involve media as a way to diffuse the information, and this connects their results to a much larger literature on the role of media in democracies, which is surveyed by Prat and Stromberg (2010). While this literature is mainly focused on rich countries, its conclusions are very much in line with those few experiments. According to Prat and Stromberg, three general results emerge: (1) media scrutiny increases political accountability and appears to improve policy (with a potential caveat on multitasking); (2) media capture is a problem, but media pluralism and commercial motives are a defense against it; (3) voter information and voting outcomes are affected by the media. This opens a vast territory for possible intervention in politics that focuses not directly on elections but on the conditions that are necessary to maintain a robust media culture.

The example of the voting machines in Brazil is somewhat reassuring in this respect: after all, even though the machines de facto re-enfranchised a substantial fraction of the poor, there was no attempt to cancel the reform. Likewise, there is no report in the many papers that we have just reviewed of the elite trying to derail the experiment, even when the interventions were run on a scale large enough to actually influence electoral outcomes.

Nevertheless there is always the concern that the elites only let such reforms happen when they don't really matter to them. If that is the case, should we, as social scientists, hold back from proposing any policy change because only the ones that the elites can benefit from will survive? Should we refrain, because action just helps them consolidate their hold on power?¹³

We disagree with this argument in favor of passivity for a number of reasons. First, it overestimates the intellectual sophistication of the elites in two different ways: First, it assumes that anything that is in collective interest of the elites and more or less everyone else, is necessarily already being considered and, if feasible, already implemented; and second it assumes that the elites always understand the workings of the economic and political system well enough to take advantage of any opportunities to advance their interest—otherwise the fact that they could take advantage of it is not enough. Our sense of the elite leadership in most developing countries, based on personal experience as well as a reading of history, makes us skeptical of both parts of this first claim. Second, it ignores the fact that elites are typically not a homogenous group: India, Pakistan and Indonesia are all countries where the last two decades have seen an ongoing conflict between the modernizing elites and their more traditionalist elite opponents. There are, of course, attempts by single groups within the elite to take over and establish a single-minded oligarchy, but this is not easy; and to make matters worse (for the oligarchs) the non-elites can

¹³ Acemoglu and Robinson (2013) seem to be worried about exactly this issue.

take advantage of the intra-elite competition to advance their own agenda (Bardhan, 1999). Finally it assumes that the elites are always forward-looking—that they do not compromise the interests of future elites in order to protect their own.

To take the example that Acemoglu and Robinson (2000) have made famous, that the Western elite extended the franchise because it was the best way to head off a revolution: what makes us believe that at that time they exactly understood that democracy would eventually lead to high taxes and social democracy, or even that they cared about what would happen in the distant future? Perhaps they just assumed, potentially incorrectly, that they would retain their control and manage to forestall all attempts for real social change. (After all, this is what happens in third-world democracies, according Acemoglu and Robinson.) Should the egalitarian social scientists of the day have assumed that the elite always knows what it's doing and it must be in their own self-interest, and therefore resisted the extension of the franchise, or at least considered it to be irrelevant?

Or, to take another example, when Suharto decided to massively expand access to education in Indonesia in 1970s, did he consider the possibility that this would change people's expectations and potentially contribute to the creation of a country where his kind of dictators would be less welcome? Or did he assume that the control of the education system, the diffusion of the Pancasila ideology, and therefore the grip over the hearts and minds of the people would allow him to extend his control over the population? Should the liberal-minded Indonesian of the 1970s have fought to stop the school construction or supported them as a good cause?

The point is not that elites do not hatch elaborate conspiracies to defraud the people, but they also make strategic errors and even act—perhaps only rarely, but

perhaps not—out of a sense of national interest.¹⁴ Given that, we feel that while there are specific cases where a strategic silence may be warranted, for the most part, society would not benefit from our systematic double-guessing the intentions of the elite (or strategizing against the dominant culture). We believe that as economists our main job remains to stick up for policies that, based on our economic analysis, are expected to help improve the efficiency of governments and the welfare of the population everywhere—and to do so delineating with as much clarity as possible where we are speaking of what we objectively know, and where we are giving way to our private political or social preferences.

That does not at all mean that we should ignore institutions (or culture or politics) when we make such policy recommendations. What we mean by economic analysis is not the naïve analysis that starts with an infinitely capable and benign state and a culture-free understanding of the population. We have in mind an analysis that takes both institutions and cultures very seriously, but does not focus just on the Institutions with a capital I (or Culture with a capital C), that is to say a few macro indicators of institutional quality (or “culture”) that tell you whether we are dealing with a “good” state or a “bad” one. While it is useful to know whether there is a lot of corruption in a particular country (a macro indicator) because it tells us what to worry about, it is perhaps even more useful to know about specific capabilities of specific institutions or groups of people—say, whether a particular bureaucracy (the health workers or the police) within a country is particularly corrupt or inept or hostile to outsiders bearing messages of reform or especially open minded (we had such an experience with the police department in the state of Rajasthan). This is, after all, the information that can help the policymaker pick his targets better.

¹⁴ Philippe Aghion, who was the editor who handled this paper, suggested South Africa as an example of miscalculation by the elites. Many of the leaders of the African National Congress were the products of an education system that was set up for the African population by the white-supremacist government under encouragement from the domestic capitalist class, which needed better educated workers. But that eventually backfired on them, because these leaders proved too sophisticated for them to contain and that ultimately contributed to the end of apartheid.

Even at the macro level, our inclination is to be eclectic about the choice of indicators. Rather than focusing on one preeminent political constraint—e.g. the extent of checks on the executive—we believe that there is much to be gained by a range of indicators reflecting, for example, the quality of human capital in the bureaucracy or the way it is organized. (Are the bureaucrats specialists or generalists, professionals or political appointees; or simply how much resources are available to the bureaucracy? There are many more judges per capita in OECD countries, for example.) As Besley and Persson, who focus on the very closely related notion of fiscal and legal capacity, point out, a country like India, which does very well on constraints on the executives, does much worse on fiscal and legal capacity, which might explain some of the problems it is facing in raising taxes, enforcing policies and fighting corruption.

In the end, the choice facing the field of political economy is very simple. It can embrace grand theories that will offer us the satisfaction of strong and simple answers. Or it can try to be useful.

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