

THEMATIC INSIGHT

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A Theory of Power Structure and Institutional Compatibility: China vs. Europe revisited¹

Throughout history, Rulers have always faced challenges to their rule. These challenges came either from outside aggressors, popular uprisings or Elite conspiracies. The ability of Rulers to respond to these challenges has varied a lot across countries and across time. In our EDI working Paper “A Theory of Power Structure and Institutional Compatibility: China vs. Europe Revisited”, we propose a theory of power structure based on the relative powers of three main actors: the Ruler, the Elite and the People. Our theory is based on two important variables: 1) the absolute power of the Ruler, 2) the level of asymmetry in the power and rights of the Elite vs. the ordinary People.

Why does power structure matter? Political economy theories of institutions and development usually focus on the relationship between the Ruler and the ruled, i.e. on the first element of power structure: the absolute power of the Ruler over the ruled. These theories rightly emphasize how constraints on the power of the Ruler are good for protection of property rights. They capture essential elements of European history where constraints on the power of Rulers were favorable to the property rights of the Elite, essentially the landed - and hereditary - aristocracy. They, however, leave out the fact that ordinary European peasants had virtually no rights at all and were oppressed by the Elite and the Rulers, with little hope for social mobility. In contrast, the absolute power of Chinese Emperors was much more developed, which made property rights for the ruled much less secure. At the same time, the rights and powers of the Elite vs. ordinary People were less imbalanced. Ordinary People had the possibility of joining the Elite via the Civil Service Exam, peasants were more autonomous, and land ownership was much less concentrated than in Europe. In other words, there was a stronger asymmetry between the power and rights of the Elite vs. the People in feudal Europe compared to China, the second variable in our theory of power structure.

Why does this more complete theory of power structure matter? Why not only focus on the degree of absolute power of the Ruler? Our model of power structure and challenges to the Rulers provides an answer. Without explaining the model in details, our main results are the following. First, higher rights to the People reduce their incentives to mount or join a challenge to the Ruler as they have more to lose in case the challenge fails and they are punished by the Ruler. We call this the punishment effect. Second, the lower incentives of the People to join a challenge to the Ruler also reduces the incentive of the Elite to mount or join a challenge to the Ruler. We call this the political alliance effect. These effects work to stabilize autocratic rule. Note that a stronger absolute power of the Ruler means the power and rights of the ruled depend more on the Ruler’s will, which will *ceteris paribus* strengthen the punishment effect and, therefore, the total stabilizing effect. A stronger absolute power will thus give the Ruler a stronger incentive to create more symmetric relationships between the Elite and the People. This may explain why China had both more absolute power of the Ruler and a stronger symmetry between the Elite and the People compared to Europe.

A direct implication of this theory is that, given both a stronger absolute power of the Ruler and a more symmetric Elite–People relationship, we should observe fewer challenges to Rulers and a higher stability of autocratic rule in Imperial China relative to Europe.

In the paper, we apply this theory to the historical context of feudal Europe vs. Imperial China, focusing on the period between the 9th–14th centuries. Despite the fact that this research is historical in nature, our framework can fruitfully be applied to today’s world. Most countries do not have a monarch (Emperor, King)

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anymore, but political power is often held by a smaller group of people who can be challenged any time by the broader group of the elite (the more wealthy, educated, socially connected) or by other groups, especially in autocratic regimes, so our framework can easily be applied to the modern world.

What lessons can be drawn from this research for development policies in today's world?

1. There is not a single metric or dimension by which to evaluate institutions and there may not be a unique institutional equilibrium for all countries. In an influential essay in 1989, Francis Fukuyama suggested the idea of “the end of history”, which means that liberal democracy is the final form of government for all nations. In recent decades, however, scholars including Fukuyama himself have realized that this view is too simplistic. Why would nations diverge on their institutional structure? Our study provides one perspective to understand this question. Because the power structure is more than one dimensional, it is not straightforward that countries would converge to the same institutional path.
2. Policy prescriptions based on the usual two estate framework (ruler-ruled) may be misleading. Indeed, the standard dichotomy between elite and people leads to suggest that more legal provision of property rights protection is always good for welfare and development. This is not necessarily the case. More property rights protection to the wealthy without rules or policies to help the poor may not achieve the overall goals of development policies, because they may not be inclusive enough. Similarly, autocratic regimes with low protection of property rights may not necessarily lack inclusivity and may implement paternalistic policies that are welfare-enhancing for the people and that contribute to political stability. The issue is not to relativize the importance of human rights, but to be able to better diagnose the power structure in particular countries so as to be as effective as possible in the formulation of development policies.
3. Political stability matters. Lack of political stability leads to violent conflicts that are extremely harmful to its victims. External and internal peace should always be of paramount importance as a policy objective. One should therefore not push policies that may have the unintended consequence of increasing conflict. Obviously, in countries under the yoke of a predatory dictator, removal of that dictator is a first order priority for those oppressed, but most countries, even poor ones, are not in that situation, and conflict is a major source of poverty. Therefore, development policies should, when appropriate, take into account their effects on political stability.
4. Policy prescriptions should take into account the specificities of a country's institutional path. As much as economic principles are universal, the rules of the game in society, people's beliefs about behavior of others and values that give meaning to people's lives vary tremendously and depend on history. Not taking them into account when formulating policy prescriptions risks leading to mistakes and unintended consequences. Policies that work well in certain contexts may not work in others, precisely because of this.
5. History matters for policy. The idea that development policies can ignore a country's past and how it has changed its power structure, its institutions and beliefs is wrong. On the contrary, a better understanding of the low frequency moments of countries is crucial to define better policies.

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