

# Research on State, Bureaucracy, and Judiciary: A Synthesis

February 2022

Dilip Mookherjee  
*University of Boston*

---

### About Economic Development & Institutions

Institutions matter for growth and inclusive development. But despite increasing awareness of the importance of institutions on economic outcomes, there is little evidence on how positive institutional change can be achieved. The Economic Development and Institutions – EDI – research programme aims to fill this knowledge gap by working with some of the finest economic thinkers and social scientists across the globe.

The programme was launched in 2015 and will run until 2022. It is made up of four parallel research activities: path-finding papers, institutional diagnostic, coordinated randomised control trials, and case studies. The programme is funded with UK aid from the UK government. For more information see <http://edi.opml.co.uk>.



# 1 Introduction

Recent decades have witnessed growing research and policy discussions on the role of formal institutions such as rule of law, separation of state powers, and secure property rights in promoting economic development, following the work of North and Weingast (1989), Acemoglu, Johnson and Robinson (2001, 2005), and many others. These lines of research attempt to provide evidence that formal institutions have a causal role in development. In the policy arena, they have generated efforts by countries or international organisations providing aid to developing countries to encourage the emergence and strengthening of such institutions.

In the past decade, a number of important critiques of this approach have begun to emerge. One line of criticism concerns the presumed ‘exogeneity’ of such institutions; this argues instead that formal institutions emerge endogenously from pre-existing cultural traits and norms (‘culture’ or informal institutions) in conjunction with historical accidents, endowments, and patterns of inequality (‘history’, for short). Formal institutions, once established, can in turn affect the subsequent evolution of culture and history, resulting in a complex, joint, dynamic process. Moreover, at any point of time, the functioning of formal institutions and their effectiveness in promoting development may vary with the cultural and historical context in which the institutions are embedded. Hence, formal institutions cannot be created at will, and require a suitable cultural and historical context to function well. Examples of such approaches are Michalopoulos and Papaionnou (2014), Henrich (2015, 2020), Nunn (2020), Persson and Tabellini (2020), and Bisin and Verdier (2021).

The research conducted in this branch of RA4 in the EDI network makes important contributions to this latter strand of literature. The papers reviewed below can be roughly classified by methodology and scope. The first set of papers focus on the long-run dynamics of formal institutions, arguing that these are influenced by pre-existing cultural and historical context, besides affecting the future evolution of cultures, policies, and development patterns. A common theme is that formal institutions may diverge in the long run across different countries or continents. These papers provide an explicit theoretical model of the dynamic process, and argue that the predictions of these models are consistent with key stylised historical facts.

The second set of papers provide more detailed empirical analyses of specific institutions in specific countries at specific times; these show how the functioning of certain formal institutions are affected by the cultural and historical context in which they are embedded. In particular, the development or functioning of certain formal institutions may be subverted or perverted by religious, political, or economic elites. As a result, policy reforms, such as trade and media liberalisation or local government elections, may not achieve their intended impact.

Sections 2 and 3 describe these two sets of papers in more detail. Section 4 discusses the implications for development policy.

## 2 Long-run institutional dynamics

Jia, Roland, and Xie (2021) point out a striking difference between Imperial China and pre-modern Europe in power structures between rulers, elites, and peoples that lasted over many centuries. While pre-modern Europe was marked by greater constraints on the executive powers of the ruler, owing to the rule of law and property rights protection, it was also marked by higher and more deeply entrenched inequality between the elites and the common people. Elite status in Europe was determined by membership of the hereditary nobility; this was often combined with high land inequality and restrictions on freedom of movement of common people. In China, on the other hand, access to elite status – membership of the central bureaucracy – was non-hereditary and meritocratic, and was dependent on competitive examinations.

Jia, Roland, and Xie (2021) develop a theoretical explanation of these two different types of power structures as persistent, self-reinforcing outcomes of efforts by the ruler to minimise the risk of losing power. In Europe, the elites inherited greater power over the ownership of land and control of the peasants, while the Church, as well as the law, imposed strong constraints on the power of rulers. In China, the central ruler's power was absolute; it included ownership of land, and was unconstrained by religious authorities or law. This implied that the threat to the power of the ruler was more likely to arise from the common people rather than the elites, thereby motivating the ruler to perpetuate a system that generated higher material benefits and opportunities to the former to pre-empt popular revolts. This motivated the ruler in China to create a more open society by providing opportunities to the common people to enter the ranks of the bureaucracy, creating partible inheritance systems, rather than imposing primogeniture, to limit land inequality, and encouraging the persistence of a Confucian culture. The details of this explanation are provided in a dynamic game theoretic model in which elites and people decide whether or not to side with challengers seeking to displace the ruler. Providing greater benefits to the people is economically costly to the ruler; however, it is politically beneficial because it lowers the likelihood of people joining the revolt. The theory explains that the way this trade-off is resolved depends intrinsically on the power of the elites: if it is high (as was the case in Europe), the political benefits of providing greater benefits to the common people are outweighed by the economic cost; if it is low (as in China), the opposite happens. The theory explains why autocratic rule was more stable in China, and therefore why the rule of law or constraints on the power of the ruler did not emerge as they did in Western Europe.

Auriol, Platteau, and Verdier (2020) focus their attention on explaining institutional divergence across various countries with large Muslim populations in the Middle East and Asia. They study the case of an autocratic ruler who decides whether to push institutional reforms that would modernise society and generate economic growth, but which are opposed by a religious clergy on ideological grounds. The ruler could try to use the military to quell a revolution generated by the clerics, at the cost of increasing spending on the military, which could also possibly mount a coup and depose the ruler. They develop a game theoretic model of the dynamic interactions between these three different parties. The strategies of the ruler include choosing the extent of the reforms to be pursued, and the resources expended on the military and on material benefits to the clergy. Importantly, the model incorporates variations both on the extensive (whether or not to adopt) and the intensive margin (the extent, conditional on adoption) of each action. The military and clergy

subsequently decide whether to acquiesce or mount an effort to depose the ruler with a military coup or religious revolt.

The model produces three distinct institutional equilibria, which the authors argue correspond to divergent institutions observed in different sets of countries. At one extreme is an equilibrium with an alliance between a modernising autocrat and the military – resembling Ataturk’s Turkey, Nasser’s Egypt, or Bourguiba’s Tunisia – which is likely to arise when there is close alignment between the autocrat and the military, and a weak religious clergy. At the other extreme is an alliance between the autocrat and the clergy, with a weak military, one that does not pursue any modernising reforms – as in Saudi Arabia or post-1979 Iran. This equilibrium is more likely to arise with an ultra-conservative and influential clergy and the presence of large natural resources that enable the rulers to overcome resource constraints arising from the lack of modernising economic reforms. An intermediate equilibrium involves an alliance and compromise among all three powers, characterised by moderate reforms, moderate spending on the army, and moderate concessions to the clergy – as in Pakistan, post-Nasser Egypt, Algeria, and Sudan. The ruler is weaker in the third equilibrium, playing a balancing act between the demands of the army and the clergy, and is occasionally vulnerable to a coalition of the latter powers. This equilibrium is more likely to emerge in countries that are not resource-rich and are thus forced to modernise to some extent.

Using this model, the authors explain how historical shocks can cause a country to transit from one type of equilibrium to another. An interesting illustration of this is the consequence of a fall in military aid from external sources in the post-Cold War era, which reduces the capacity of rulers to spend on the military. This raises the power of the clergy, thereby leading to the rise of Islamic republics and backtracking on modernisation reforms.

### 3 Functioning of specific institutions: empirical studies

Mehmood and Seror (2020) study the consequences of the 1999 military coup in Pakistan on political decentralisation, the election of religious leaders to local government positions, and judicial independence. They develop a theory in which local religious leaders obtain political support from voters in local elections which provides them with a competitive advantage over secular candidates. An increase in their religious influence encourages more religious candidates to run for office, and is more likely to result in a religious candidate winning the election. Once elected, the official can exert pressure on judges to bend court cases involving disputes over land and other resources with private citizens in their own favour. While this reduces the political legitimacy of the official, his hold on power is not threatened owing to his greater religious influence on local citizens. As a result, judicial independence is undermined by clerics that hold powerful positions in local government. Some of the resulting resource benefits accruing to local leaders are appropriated by the military ruler, thereby motivating the latter to pursue a decentralisation reform.

The authors provide detailed empirical evidence for this mechanism, based on a large data collection effort, including on the location of 13th-century Muslim shrines, the outcomes of local government elections, and the coding of outcomes of a random sample of 7,500 judicial cases adjudicated in 16 district high courts between 1986 and 2016. The extent of religious influence of local clerics in a given district is measured by the number of shrines located in it. Using this data, they successfully test various predictions of their theory. Specifically, following the 1999 coup, in districts with a higher density of shrines, judicial decisions in cases involving the local government are more likely to be biased in favour of the latter. This occurs only in cases involving resource disputes with the local government, not other types of cases (e.g. criminal cases, or cases involving private parties or the central government). The authors point out that their hypothesis also helps explain a historical paradox observed in Pakistan and a number of other authoritarian countries: the rise of the authoritarian power of the central government is associated with decentralisation reforms that empower locally elected officials. Interpreted through the lens of their model, this is motivated by considerations of rent-seeking rather than the promotion of local development, and results in an undermining of judicial independence.

Blumenstock, Dube, and Hussein (2021) examine the consequences of a dramatic media liberalisation policy pursued in Pakistan in 2002, in which the country transitioned from having a single state-controlled radio station with culturally conservative content to having a decentralised network of hundreds of private stations broadcasting diverse content (including foreign non-Islamic countries, such as the US and India). They examine the impact of this policy on cultural and religious attitudes, using a credible identification strategy exploiting a spatial regression discontinuity created by a 50 km restriction on the area covered by any station. Using spatially granular voting data from thousands of polling stations in the 2018 election, the effect of the policy is estimated by comparing the vote shares of religious parties on either side of the 50 km radio station border. They find an increase in vote shares for both Sunni and Shia parties in provincial elections, and only for Sunni parties in national elections (in which foreign policy considerations that undermine support for Shia parties are likely to arise). Moreover, using a nationwide household survey run during 2012–14, they find that households just inside the boundary were more likely to enrol their children in

madrasas focusing on Quranic studies, particularly among poorer households and for boys rather than girls.

These results suggest the importance of a ‘backlash’ effect among religious conservative households of exposure to diverse media featuring secular content; this effect overcame the potential modernising influence of such exposure. The authors argue that this finding is consistent with theories of the endogenous transmission of cultural values across generations within families advanced by Bisin and Verdier (2001) and Wheaton (2020), in which parents with a minority cultural norm will react to changes in the external environment that promotes diversity by narrowing their children’s exposure. Consequently, a policy of media liberalisation ends up having an impact which is the very opposite of that likely to have been intended by policymakers. In other words, the policy may underline modernisation and judicial independence, a conclusion supported by the results of the papers described above.

A third study of Pakistan by Malik, Mirza, and Platteau (2021) focuses on the role of political dynasties vis-à-vis other politicians on local development. Entrenched political dynasties obtain a competitive advantage in elections owing to visibility, name recognition among voters, intergenerational transmission of political skills, access to privileged political network connections, finances, and patronage machines. These advantages could promote local development owing to the politician’s superior ability to secure resources for the local area from higher-level governments; this also represents a strong incentive to maintain one’s political reputation for the sake of one’s heirs.

The opposite could happen if the head-start provided by an influential dynasty permits less skilled members to get elected, weakening efforts to enhance local development or producing a clientelist patronage network that delivers few local public goods. Alternatively, dynasts may have a vested interest in blocking local development as a strategy for perpetuating the dependence of their clients. These two alternative mechanisms for a negative development effect differ in one respect. In the former mechanism, the negative effect would be weaker in the face of greater competitive pressure. In the latter, it would be stronger when the election is likely to be more strongly contested, making an incumbent dynast more insecure.

Malik, Mirza, and Platteau conduct a detailed empirical analysis of the local development effects in Punjab province of the election of a political dynast vis-à-vis a non-dynast using a regression discontinuity approach (based on outcomes of closely fought elections in which random events are likely to have played an important role). In order to do this, they construct political genealogies going back to 1920 of every politician contesting an election during the study period 2014–19. A political family is defined to be dynastic if it secured at least 11 distinct tenures in Punjab between 1920 and 2013, a threshold constituting the 90th percentile of the distribution of tenures. Using different vote share margins to define close elections, they find that close elections won rather than narrowly lost by a dynast were followed by a drop in various measures of local development: night-light luminosity, child school attendance, and household ownership of durable assets. This effect was more pronounced in closer elections, suggesting that the ‘political insecurity’ mechanism was driving the results.



Forster *et al.* (2021) examine a trade liberalisation reform in Myanmar during 2013, and provide evidence that firms with political connections to the military rulers were protected from the effects of the reform in the way it was actually implemented. Moreover, ‘unconnected’ sectors, where connected firms constituted a small share of import value (below 15%), were the only ones experiencing growth of imports, mainly from the entry of unconnected private firms. The research in this paper rests on the construction of an unusual dataset on the political connections of firms, based on sanctions imposed on the military regime by the US, the UK, and Australia prior to 2013, which is merged with data on individual firms and their imports that includes questions regarding whether the firm had to procure a licence for its imports. This approach permits the authors to classify firms as well as sectors into ‘connected’ and ‘unconnected’, and examine *de facto* versus *de jure* implementation of the reform.

Specifically, they show that connected sectors were less likely to be liberalised in the *de jure* reform, and were also less likely to implement the reform *de facto* within those subject to the *de jure* reform. The latter effect was stronger in sectors with low natural entry barriers owing to scale economies. And within liberalised sectors, connected firms were less likely to be asked for a licence by the customs authorities. In other words, the implementation of the reform clearly discriminated in favour of connected firms. In terms of outcomes, they find that impacts on import growth were large but restricted to unconnected sectors, and were almost entirely accounted for by the growth of entry of new unconnected firms. In conclusion, the varying presence of politically connected firms in different sectors of the economy, combined with the discriminatory implementation of the reform, helps explain corresponding variations in the growth impacts of the reform.

Finally, Libois *et al.* (2021) provide evidence of the success of community forest management reforms in Nepal in promoting the regeneration of forests. Assisted by aid from foreign countries, the Nepal government embarked on a large programme delegating the management of local forests to users in surrounding communities. Previous evaluations of this reform have suffered from data limitations, e.g. they have relied on cross-sectional data alone, or have been hampered by a lack of suitable measures of forest vegetation or by econometric problems resulting from the potential endogeneity of the placement of the reforms. This paper marks a significant advance in the literature by overcoming these data problems to a large extent, besides providing evidence on underlying mechanisms. It relies on a panel dataset covering 1998–2016 combining satellite data on leaf area and land cover at a high level of spatial disaggregation, village maps providing the proportion of the area managed by community forest user groups (CFUGs), biogas installations, and household survey data on firewood collection times and levels and on fuel expenditures. Control variables include measures of civil conflict incidence, village elevation, and temperature, snow, and rainfall records.

This rich dataset enables the authors to create a panel dataset at the village level spanning nearly two decades, and to provide credible estimates of the causal impact of CFUGs using a difference-of-difference econometric methodology, in combination with instruments for potential endogeneity of the spatial diffusion pattern of CFUGs. Their main findings are as follows. Following the reform enacted in the late 1990s, CFUGs accounted for 12% of the total forest area of Nepal nearly two decades later. During this time, Nepal’s forests regenerated (as measured by a leaf area index) by nearly 30%, of which they estimate 4% was accounted for by the growth of CFUG-managed areas. This contribution was more than



ten times larger in hill and mountain areas. Corrections for the endogeneity of CFUG placement result in even large estimates, as CFUGs were more likely in areas more vulnerable to deforestation. The positive effects of CFUGs grow over time, consistently with a process of regeneration. In terms of underlying mechanisms, the authors provide evidence of the effectiveness of restrictions imposed by CFUGs on firewood collection, especially in the early years of its existence – collection times reported by households increased, while collection levels fell. Moreover, CFUGs encouraged a switch to alternate energy sources: biogas installations rose and household market expenditure on fuels increased. However, their study does not investigate possible distributive impacts of CFUGs within the village, thus abstracting from the possibility of capture of the CFUGs by local elites.

## 4 Implications for development policy

This collection of research projects combines ‘big picture’ conceptual projects on institutional dynamics-cum-divergence at a macro-historical level with detailed empirical studies of the functioning of specific reforms in particular low-income countries at a high level of disaggregation. Together they constitute a coherent body of work highlighting the shortcomings of the dominant paradigm prevailing in the political economy of development focusing on the role of Western-style formal institutions. The shortcomings are based on a neglect of the cultural and historical contexts in which formal institutions are embedded; these contexts create significant diversity in both the emergence and functioning of formal institutions across low-income countries located in different parts of the world. In contexts with non-Western cultural attributes and informal institutions (such as religious organisations and beliefs) and a historical legacy of large inequality in power and assets, Western-style formal institutions may fail to emerge. Even when they do emerge, they may be subverted in various ways by pre-existing power groups or elites, thwarting or inhibiting the positive developmental effects observed in other parts of the world. The studies also provide instances of how policies may have unintended and undesirable consequences: the rise of Islamic republics in the Middle East as a consequence of the post-Cold War decline in military aid; and a decline in judicial independence and the rise in power of the religious clergy following a government decentralisation reform (and as a consequence of a cultural backlash against media decentralisation reform in Pakistan).

This conclusion has important implications for development policy. From the perspective of foreign countries, organisations, or aid donors, it urges caution with attempts to install (or induce) Western-style institutions in developing countries uniformly, without regard to the diversity of pre-existing cultures, religions, and power structures. The disastrous effect of neoconservative attempts to create Western-style democracy, rule of law, and property right institutions in the Middle East and Asia over the past two decades are becoming increasingly apparent. The detailed studies provide credible evidence of how various attempts to liberalise the economy and media and decentralise governments were poorly implemented, exploited by traditional elites to their advantage, or generated a cultural backlash. Policymakers need to learn important lessons from these experiences and research findings.

However, this finding does not necessarily mean that policymakers should succumb to inaction or paralysis resulting from an exaggerated sense of historical determinism. There are instances of successful interventions, such as the community forestry programme in Nepal in which Western aid donors have played an important supporting role. The most essential lesson is the need to understand the cultural and historical context of any specific society before designing and implementing suitable interventions. This may necessitate interventions that do not conform to a uniform straightjacket, or that include adequate safeguards against the risk of opportunistic exploitation by traditional elites in ways that retard development.

## EDI RA4 papers reviewed

- Auriol, E., Platteau, J.P., and Verdier, T. (2019) 'The Quran and the Sword – the Strategic Game between Autocratic Power, the Military and the Clerics'. EDI Working Paper. Available at <https://edi.opml.co.uk/resource/the-quran-and-the-sword-the-strategic-game-between-autocratic-power-the-military-and-the-clerics/>
- Blumenstock, J., Dube, O., and Hussain, K. (2021) 'Can Secular Media Create Religious Backlash? Evidence from Pakistan's Media Liberalization'. EDI Working Paper. Available at <https://edi.opml.co.uk/resource/can-secular-media-create-religious-backlash-evidence-from-pakistans-media-liberalization/>
- Forster, F., Khandewal, A., Machiavello, R., Malhotra, M., and Teachout, M. (2021) 'Trade Liberalization and Political Connections: Evidence from Myanmar'. EDI Working Paper (unpublished)
- Jia, R., Roland, G., and Xie, Y. (2021) 'A Theory of Power Structure and Institutional Compatibility: China vs. Europe Revisited'. EDI Working Paper. Available at <https://edi.opml.co.uk/resource/a-theory-of-power-structure-and-institutional-compatibility-china-vs-europe-revisited/>
- Libois, F., Baland, J. M., Delbart, N., and Pattanayak, S. (2021) 'Community Forestry Management: Mechanisms Behind a Success Story in Nepal'. EDI Working Paper. Available at
- Malik, A., Mirza, R. and Platteau, J. P. (2021) 'Entrenched Political Dynasties and Development under Competitive Clientelism: Evidence from Pakistan'. EDI Working Paper. Available at <https://edi.opml.co.uk/resource/entrenched-political-dynasties-development-competitive-clientelism-evidence-pakistan/>
- Mehmood, S. and Seror, A. (2020) 'Religion, Politics and Judicial Independence: Theory and Evidence'. EDI Working Paper. Available at <https://edi.opml.co.uk/resource/religion-politics-and-judicial-independence-theory-and-evidence/>

## References

- Acemoglu, D., Johnson, S., and Robinson, J. A. (2001) 'The Colonial Origins of Comparative Development: An Empirical Investigation', *American Economic Review* 91, pp. 1369–1401.
- (2005) 'Institutions as a Fundamental Cause of Long Run Growth', in *Handbook of Economic Growth*, Elsevier B.V., Amsterdam.
- Bisin, A. and Verdier, T. (2021) 'On the Joint Evolution of Culture and Institutions: Elites and Civil Society', working paper, New York University Department of Economics, New York.
- Henrich, J. (2015) *The Secret of Our Success*, Princeton University Press, Princeton and Oxford.
- (2020) *The Weirdest People in the World: How the West Became Psychologically Peculiar and Particularly Prosperous*, Farrar, Straus and Giroux, New York.
- Michalopoulos, S. and Papaionnou, E. (2014) 'National Institutions and Subnational Development in Africa', *Quarterly Journal of Economics* 129(1), pp. 151–213.
- North, D. and Weingast, B. (1989) 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in 17th Century England', *Journal of Economic History* 49, pp. 803–832.
- Nunn, N. (2020) 'The Historical Roots of Economic Development', *Science* 367, eaaz9986.
- Persson, T. and Tabellini, G. (2020) 'Culture, Institutions and Policy', in *Handbook of Historical Economics*, Elsevier B.V., Amsterdam.