The Political Economy of State Failure

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1. Introduction

Most of the population of developing countries now live in countries which are converging on the OECD economies at rates without historical precedent. Even the current global recession seems unlikely to end this process. This large success is increasing attention on the minority of developing countries whose experience is radically different: the 'failing' states.

Although the term 'failing state' is in common usage it has no precise definition. It is, however, recognizable at the extremes. Since 1993 Somalia has had no government. Although for a period economic fashion favoured 'minimal' government, manifestly Somalia has been below whatever this minimum might be. While Somalia currently embodies the extreme, there is a continuum of states in which a key obstacle to development is that the state is virtually absent. Development economists are now realizing that standard economic analysis often implicitly presupposes that the state performs functions which in these countries are missing.

State failure is, however, broader than state ineffectiveness. Zimbabwe can reasonably be thought of as a failing state, but the coercive power of the government remains considerable. The heart of state failure in Zimbabwe is government malevolence towards large parts of the population. The extreme manifestation of such behaviour was Rwanda: the Rwandan state was one of the most effective in Africa in terms of organizational competence, but this capacity was directed towards genocide.

Both a lack of capacity and pernicious intent generate failure from the perspective of citizen wellbeing, which is the concern if the international community. However, there is a further reason to consider the two in tandem: they are interconnected.

Historians and economists have recently started to cohere around an account of the formation of states that are effective and accountable. Its foundation is the notion that the core role of the state is to provide the public goods of security and justice in return for taxation. These are commonly the first layer of public goods to be provided by proto-states and there is good reason for public provision: they are ill-suited to private provision. Admittedly, protection can be purchased, and firms can enforce contracts by means of networks of reputation. However, Dixit (2004) shows that there are severe limits to private provision: private protection shades into Mafia-style rackets, and beyond a certain scale networks collapse. Justice and security are essential public goods.

Tilly (1990) explains the historical emergence of effective states from an initial political structure of international military rivalry. International warfare created the need for the national public good of military spending. The resulting arms race between states created an escalating need for public money, of which the key sources were tax revenue and government debt. In order to raise debt at moderate interest rates the state needed a secure revenue source which reinforced the importance of tax revenue. In turn, efficient taxation required an administrative structure, fiscal capacity, which could only be built slowly. It also gave the state an interest in enabling private economic activity to flourish by providing supporting legal institutions which could enforce contracts. Finally, it was in the interests of such states to accept accountability to wealth generators. This reduced the cost of borrowing and, by curtailing risks of confiscation, promoted wealth generation. The governments which made these investments in capacity tended to win the wars and so a Darwinian process of natural selection reinforced internal pressures for the emergence of effective states.

Besley and Persson (2008a) propose an economic formalization of Tilly. Their analysis has three layers: public policies, which can in principle be changed rapidly; institutions which take longer to build and so are in the nature of investments in capacity; and the initial structure of political power, describing the interests which the government represents. Different power structures and interests determine how much the government investments in institutional capacity for taxation and justice. They show that a political system which is not inclusive, and which has a high degree of regime instability, is less likely to build the capacity needed for an effective state. In turn, if these institutions are not built, subsequent policy choices on tax rates and the regulation of private economic activity are constrained.

If these were indeed the processes by which states became effective and accountable, they bear no relationship to the process of state formation post-1945. These new states have arisen as the result of decolonization and the break-up of empires. Internal pressures for Independence were reinforced by the hostility of the United States to the continuation of the European empires. Although these new governments inherited varying degrees of state capacity, and were supposed to operate within the restraints of new democratic constitutions, a substantial proportion of them have become failing states. Indeed, all failing states are former colonies. I will argue that these distinctive origins for the new states would in any circumstances have severely tested capacity and accountability. In the event three further characteristics compounded these difficulties.

The empires had created huge geographic units such as British India and French West Africa and upon decolonization these got split up to varying degrees. British India split initially only into two, although the smaller entity, Pakistan, soon itself split into Pakistan and Bangladesh. Africa, however, was split into very many more distinct units. This was partly because the colonial experience in Africa has been far briefer than that of India so that the colonial units had had less time to cohere. As a result, many countries were too small for the effective provision of either security or accountability.

A second characteristic was ethnic diversity. Africa in particular was divided into many small countries in partial recognition of its ethnic diversity. In pre-colonial sub-Saharan Africa transport costs had been extremely high and so, with limited mobility, people's identity had become highly localized. Although at Independence the typical country had less than ten million people, it was made up of around 50 distinct ethnic groups which many citizens regarded as their primary identity. This made cooperation for common goals more difficult.

A third characteristic was the dominance of natural resource assets. The importance of natural assets followed from the combination of low population densities and under-developed economies that typified Africa: the ratio of natural assets to other assets was much higher than in most other regions. Further, because the region was divided into so many countries those rare natural assets of high value accrued not to Africa as a whole but to the few countries in which they were located.

The paper is organized as follows. Section 2 considers state failure from the classic perspective of the security-taxation nexus. Why has this process not occurred in failing states? Section 3 considers state failure from the perspective of state objectives. Why has the normal process by which governments become accountable or at least reasonably aligned with the interests of ordinary citizens not occurred in some failing states? Section 4 discusses interconnections between state capacity and accountability. It suggests that due to these interconnections states that emerge organically are robust, but that piecemeal insertion of some components in the absence of others is inherently fragile. Section 5 discusses potential solutions to state failure. It distinguishes between post-conflict states, where the international community often intervenes and thereby has some power, and other failing states where different approaches are necessary. Section 6 concludes.

2. Why the Security-Taxation Nexus Failed

The virtuous circle described by Tilly had ugly foundations in international warfare. Security was manifestly in the interest of the elite but since invasion was also disastrous for the general population it was relatively easy for people to cohere around a nationalist agenda. However, decolonization occurred following the most appalling international war in history and in the context of nuclear rivalry. Unsurprisingly, there was a sense that it was no longer an acceptable part of government behaviour: it was too costly and neighbourhood wars might escalate into global war. As a result of international pressure, including international mediation through the United Nations and regional groups such as the Organization of African Unity, the incidence of international war radically diminished. Local arms races have not entirely disappeared, but except in a few instances, such as India-Pakistan and Ethiopia-Eritrea, they are modest. The Darwinian process by which strong states absorbed weak states, whereby Germany had reduced from over 300 states to one, completely ceased. Since 1945 no state has disappeared as a result of military action by a neighbour.

This did not imply that these states were secure. On the contrary they were highly insecure, but the threat was internal from rebellion rather than external from neighbouring governments. The risk of rebellion was high because it was relatively easy. At low levels of income rebellion is cheap and common (Besley and Persson, 2008b). In the absence of an effective state economic development is frustrated. The resulting economic stagnation compounds the risk of rebellion (Miguel et al, 2004).

In one respect the high risk of rebellion acts like an external threat: it induces an increase in military spending in an attempt to increase security (Collier and Hoeffler, 2007). However, since its objective is internal repression it does not have the same properties of nation-building as an external threat. Military spending for repression is not a national public good in contrast to defence against external threat. Its conventional non-rival properties are lost: the army that defends you represses me.

Further, the military is itself often the main threat to the regime: coups are far more common than rebellions. In response, governments deliberately reduce the effectiveness of their military by dividing it into rival units with obscure lines of authority. A classic instance is the strategy of President Mobutu of Zaire. The complete ineffectiveness of the Zairian army was demonstrated when, unusually, Zaire was invaded from a neighbouring country, Rwanda. Although Rwanda was very small relative to Zaire, and its army was a tiny ex-rebel group, it occupied Zaire with virtually no military opposition. The rulers of the proto-states of Europe presumably faced the same dilemma that their army was also a source of threat. However, these rulers had the advantage over modern autocrats in the institution of kingship which conferred the principle of lifetime tenure of power. Although in practice this was often challenged, the aristocracies that ran the armies were dependent upon the same principle of heredity for their own legitimacy. In contrast, most current autocrats feel the need for some periodic renewal of their mandate, however token this may be, and the succession of their children is far more precarious than under kingship.

Perhaps as a result of the deliberate emasculation of the army as a fighting force, military spending does not appear to be effective in discouraging rebellion. However, while it is easy for a rebel group to survive, it is much harder for it to win: only about 20 percent of civil wars end in rebel victory. Rebels are at a substantial military disadvantage, lacking a secure revenue base and the international acceptability necessary for commercial transactions such as the purchase of military equipment. One consequence is that rebellions do not pose much threat to rulers and so they can indeed afford to emasculate their armies unlike in international warfare where the opposing army is not technologically disadvantaged. A further consequence is that unlike international war the average civil war is highly persistent. Whereas the average international war lasts only six months, the average civil war lasts between seven and fifteen years depending upon definition. Over such a long period civil war weakens both the economy and the institutions of the state. Typically the economy declines by around 15 percent relative to counterfactual, and while conventional tax capacity deteriorates it is replaced by resort to the inflation tax (Adam et al., 2008).

The risk of coups and rebellions may also create a continuous sense of regime insecurity. In practice African rulers have managed to remain in power for much longer periods than rulers in other regions. However, unlike in a secure democracy, they have no period during which power is certain. Judged by regime duration there is considerable political stability, which Besley and Persson (2008a) show is conducive to investments in state-building. However, in view of the continuous threat of loss of power regimes face an imperative of attention to their immediate survival and might never develop the habit of planning for a longer horizon.

To summarize so far, the typical post-colonial state did not face an external threat and so did not need to build an effective and hence expensive military. In consequence, pressure to raise tax revenue was lower and so there was less need to invest in either fiscal capacity or a legal system which would have assisted private prosperity. Regimes faced two threats of insecurity, rebellion and coups, but both of these were counter-productive. Rebellion produced a military response designed for the internal repression of dissenting groups and so did not induce nationalism, and it undermined both the economy and state capacity. The coup threat encouraged rulers to weaken their armies. The two threats combined shortened time horizons and so discouraged investment in state capacity.

These effects coming from the distinctive type of insecurity faced by post-colonial states were perhaps compounded by rising inflows of foreign aid. While aid augmented the provision of public goods, it inevitably tended to substitute for tax revenues and so further reduced the need to invest in state capacity. Since aid commonly amounted to around half of public spending, the effect was substantial. Donors attempted to offset these effects by policy conditionality and by providing finance and technical assistance for capacity-building. However, typically tax revenue as a proportion of GDP has been considerably lower in failing states than during the state-building phase in Europe. For example, during the naval wars fought by England in the seventeenth century tax revenue was gradually increased from 16 to 20 percent of GDP. In contrast, after a quarter-century of Independence, tax revenue in Ghana and Uganda had fallen to around 5 percent of GDP.

Small Economic Size

These generic problems of post-colonial states have been compounded by three characteristics which are common but by no means universal. The first is small economic size. With the exception of the DRC and Sudan, failing states tend to be very small, with low population size compounded by very low per capita income. One consequence is that the country is less able to reap scale economies in the provision of public goods in general and security in particular: big is safe. One reason why the incidence of rebellion is much lower in India than in Africa is that the former has a unified military whereas in the latter the military is divided into 53 organizations. As discussed above, a high risk of rebellion tends to have the opposite effect to a high risk of external threat, reducing the incentive to invest in state-building.

A further consequence of small economic size is that income is lower since a whole range of other scale economies cannot be realized. One indication of these costs of small size is that Africa has radically fewer large cities than India (Collier and Venables, 2009). Low income itself increases the risk of rebellion and also reduces the value of investing in state capacity.

Ethnically Diverse

The second distinctive characteristic of some post-colonial states is their ethnic diversity. If sub-national identities are dominant then cooperation in the production of public goods becomes more difficult, a theme developed in Section 3. However, ethnic diversity also increases the risk of rebellion, possibly because it makes rebellion easier to organize (Collier, Hoeffler and Rohner, 2009).

Resource-rich

The final distinctive characteristic of some post-colonial states is that they have valuable natural resources. The presence of valuable natural resources compounds the problem of insecurity. It makes rebellion more feasible, because rebel groups can finance their activities through their physical control, and because, as discussed further below, the government is liable to become detached from citizens and so there may be more sense of grievance. It makes rebellion more attractive because capturing the state, or even capturing control over some natural resources without any realistic prospect of capturing the state itself, becomes more valuable. One variant is secessionist rebellions which seek independence for the resource-rich region. Although the proposition that natural resource increase the risk of rebellion remains controversial, there is now reasonable statistical evidence for it. Collier, Hoeffler and Soderbom (2004) and Besley and Persson (2008c) both use international commodity prices as exogenous sources of change in resource revenues and find that in resource exporting countries increases in prices significantly increase the risk of rebellion.

Weinstein (2005) adds an interesting twist by endogenizing the motivation of the rebel group. He argues that in countries with valuable natural resources many of the recruits will be motivated by loot-seeking rather than by any political cause, and that the rebel organization will not be able to screen out such recruits. Hence, even if the rebellion starts out with a political agenda, over time it is likely to become loot-seeking.

3. Why the Objectives of Elites in Failing States are not Congruent with Citizens

The objectives of elites can be reasonably congruent with those of ordinary citizens either because both happen to share similar goals, or because elites have no choice but to deliver what ordinary citizens want.

One dimension of importance for congruence is the size of the elite relative to the population. Adam and O'Connell (1999) develop a simple model in which the ruling elite has a choice between a national public good and redistribution towards itself. The smaller the size of the elite the stronger is the incentive to opt for redistribution. This is one reason why democratic accountability should improve government performance: attracting support by means of public goods instead of redistribution becomes more cost effective because democracy radically expands the required support base. However, public goods may become more cost-effective than patronage with a support base considerably smaller than that implied by universal suffrage and so some governments that are de jure autocratic may approximate the priorities of a democracy.

Until the 1990s virtually all failing states were autocracies. Any difference between the average performance of democracies and that of autocracies is dwarfed by the difference in the dispersion of performance among autocracies: they can be both much worse and much better performance than democracies. One way of understanding the wide range of performance of autocracies is to introduce the concept of a ‘selectariat’ which is defined as the group on which the autocrat depends to retain power. While it might superficially appear that the incumbent is necessarily accountable to the selectariat, since they can oust him, Besley and Kadamutso (2007) argue reasonably that the threat to oust is only credible if the selectariat has a good prospect of retaining the power to select the next incumbent. Where this is uncertain the incumbent is not held to account and so is less likely to perform well. I will return to this issue in the context of ethnic diversity.

Since the 1990s many failing states have democratized. If elections achieve accountability to a rational electorate then it should be expected to improve government performance. Chauvet and Collier (2009) test whether this is the case using two measures of performance, the Country Policy and Institutional Assessment (CPIA) which is a rating undertaken annually for all developing countries by the World Bank, and the International Country Risk Guide (ICRG) which is commercial rating service. They find that on both measures elections have both cyclical and structural effects. The cyclical effect is consistent with political economy models. For example, if some good policies incur initial costs with benefits accruing later, and some bad policies have converse characteristics, then as the election approaches the government has an increasing incentive to adopt bad policies, which is what they find. The structural effect of elections is, however, normally consistent with the accountability model: the greater the frequency of elections the better are policies and governance, except for extremely high frequencies when the adverse effect of short horizons dominates.

However, failing states are not normal. Two respects in which they might be abnormal is that voters might have limited information and politicians may be able to embezzle the public purse with little fear of prosecution. Besley (2006) analyzes the implications of these characteristics. He shows that there is a point at which elections fail to discipline those politicians whose interests are divergent from those of voters. Beyond this point this type of politician finds power very attractive and this alters the pool of candidates facing voters. Besley’s key point is that this selection effect may powerfully gear up the adverse consequence of poor incentives: in the extreme, voters may face no real choice because the entire pool of candidates consists of people who will abuse power.

However, even the context posited by Besley may be considerably closer to normality that what characterizes failing states. Commonly in these states incumbents can win elections by means of technologies which are excluded in a conventional election because they are illegitimate. Three such techniques are vote-buying, voter intimidation and ballot fraud.

By vote-buying I do not mean the practice of targeting localized public goods to voters, but rather the literal process of offering money or its equivalent to individual voters. This is normally not considered in voting models because as well as being illegal it is considered to be unenforceable: since the ballot is secret why would a rational voter do other than take a bribe but not allow it to influence his vote? However, since vote-buying is common, either the politicians who use it are irrational or the simple rational choice voting model is missing something. One thing it might be missing is that people are far from confident that the ballot is indeed secret. Even a small possibility that the incumbent has sufficient power to breach secrecy may be enough to make adherence rational. A very simple way in which the politician can breach secrecy is by demanding that the voter use a mobile phone to take a picture of the completed ballot paper, a practice that is apparently common in Turkey. A further reason why voter bribery might be enforceable is if the society has long been used to the ethics of patron-client relationships whereas democracy has yet to develop strong local norms. In such societies people may regard a bribe as typifying normal practice and so see reciprocity as an ethical obligation so that breaches would incur psychological costs. Vicente (2007) used a randomized experiment in Cap Verde to show that vote buying was indeed effective.

Voter intimidation does not encounter the same problems as voter bribery. If voting is strongly influenced by observable aspects of identity, then, since the act of voting is readily observable by monitoring the polling station, those likely to vote for an opponent can be discouraged from voting by threats. Collier and Vicente (2008) used a randomized experiment of voter intimidation in the Nigerian presidential election of 2007 to show that intimidation is indeed effective, substantially reducing turnout among opponents of violent politicians.

Ballot fraud, where feasible, is the most reliable way of ensuring victory since it severs the connection between votes and results. However, it risks incurring high costs if the international community punishes the government. It can be used as a last resort complementing the other strategies since the incumbent need only use it if, as results come in, it becomes apparent that other tactics have been inadequate. In the Kenyan election of 2007 results were initially announced on national television as they came in, but once the opposition had established a substantial lead these national announcements were suspended. After a period of silence, the national result was announced as a victory for the incumbent.

The infamous Zimbabwean election of 2008 revealed all three tactics. In the first round the incumbent hoped to rely upon voter bribery and ballot fraud. However, bribery was severely limited because the treasury was already exhausted, and ballot fraud was limited because the opposition was able to fax the results as they were calculated at each constituency. As a result the incumbent lost the first round and was probably only able to achieve the need for a second round by retrospective ballot fraud. The second round was then long delayed and the incumbent used the information gleaned from the first round to target extreme intimidation which completely eliminated opposition.

These clear instances of illicit tactics are complemented by a statistical analysis of the global evidence on their efficacy by Collier and Hoeffler (2009). They find that resort to illicit tactics approximately triples the excepted duration in office of an incumbent president who faces elections. Illicit tactics also radically reduce the need for good economic performance. Benchmarked against economic stagnation, if the economy grows at 5 percent this increases the expected duration in office by 60 percent if elections are clean, but by only 20 percent if illicit tactics are used. Illicit tactics are thus not only considerably more effective than providing good economic governance, they sharply reduce the incentive for it.

Chauvet and Collier (2009) introduce a measure of the quality of elections into their analysis of whether elections improve government performance. They find that where elections are of low quality their normal structural effects cease to hold: elections fail to improve government performance measured both in terms of economic policy (CPIA) and economic governance (ICRG). This result is, of course, entirely consistent with economic reasoning: if governments can win elections by other means then, as implied by Besley, politics will attract crooks and democracy will become impotent.

Bringing the above arguments together, on the criterion of accountability, some states may therefore fail for one or other of three reasons. They may be governed by very narrow elites; the selectariat may not be able credibly to hold the ruler to account; or they may be democracies in which elections have been subverted by the use of illegitimate tactics to ensure incumbent victory. These generic problems may be compounded by three further characteristics.

Small Economic Size

Above I suggested that small economic size made the provision of security more difficult. I now suggest that the same may be the case for the institutions of accountability. The evolution from power relations which are personalized to ones which are institutionally based may occur more naturally in a large country since institutionalization becomes essential to retail control. Chauvet and Collier (2008) investigate the preconditions for the transformation of failing states. They take all countries which were at some time during the period 1977-2004 low income, and using the CPIA of the World Bank, define failing states as those which were below a low threshold level of the rating for at least four consecutive years. They then divide these failing states into those which decisively exited failure, rising above a higher threshold and remaining above it for at least three consecutive years, and those which did not. They then try to find initial characteristics which predict which among the states that were initially failing would exit the condition. Population size is one of these conditions: the chances of exit increase significantly in population size and the effect appears to be large. In a subsequent application to the comparison between India and Africa (Collier and Venables, 2009) they simulate what would have happened had both India and the countries of Africa initially been failing states with the same characteristics other than their population, India is predicted to have exited the condition within a decade whereas the typical African state is predicted to take several decades. This simulation is subject to the important caveat that because the populations of India and the typical African state are so different they each push a regression to its extremes, and so beyond the normal range over which a linear approximation is reasonable. However, they provide some suggestive evidence that small size might be a handicap in developing accountable government. Collier and Hoeffler (2009) investigate the structural characteristics that make a society prone to illicit electoral tactics. They find that both small population and low income significantly increase the prevalence of illicit tactics.

Ethnically Diverse

An established literature has shown that ethnic diversity increases the difficulty of cooperation and so weakens the supply of public goods. This is consistent with a macroeconomic literature showing that ethnic diversity reduces growth. Alesina and La Ferrara (2005) nuance this result, finding that the effects of diversity depend upon the level of income. At high levels of income diversity becomes valuable, an effect which they attribute to the value of multiple skills and perspectives. In contrast, at low levels of income, such as prevail in failing states, diversity is damaging.

Ethnic diversity not only makes cooperation more difficult but may reduce the efficacy of elections. If a sense of ethnic solidarity locks in votes for particular candidates regardless of their performance, then politicians have less incentive to deliver what voters want, an effect discussed by Besley (2006). The Kenyan election of 2007 provides an illustration of this effect. A study which monitored the election (Dercon et al ???) found evidence of strong ethnic voting. For example, although Luo voters gave the incumbent Kikuyu president quite high approval ratings, 98 percent of them planned to vote for the Luo candidate. Evidently, in such circumstances the incumbent had little incentive not to discriminate against the Luo in the allocation of public resources.

If ethnic diversity reduces the efficacy of elections and makes it difficult to supply public goods by cooperation, potentially autocracy may be a more appropriate form of government for diverse societies. However, ethnic diversity also creates problems for each of the two mechanisms discussed above by which an autocracy might simulate broad accountability.

Ethnic diversity may weaken the ability of the selectariat to hold the ruler to account because of they dislodge the ruler this may open an opportunity for a different ethnic group to seize power. This danger is exemplified by the succession following the death of President Kenyatta of Kenya, whose power base had been the Kikuyu. Two potential Kikuyu successors could not reach agreement and the dispute enabled a Kalenjin, President Moi, to gain power. President Moi evicted the Kikuyu selectariat and replaced it with one from his own ethnic group. Consistent with this, Besley and Kamatsu (2007) find some evidence that ethnic diversity reduces the performance of autocracy.

Ethnic diversity is also likely to reduce the size of the selectatiat. In ethnically diverse societies autocrats routinely rely upon their own ethnic group as their military support, so that the more diverse is the society the smaller the ruling group is likely to be relative to the population. Recall that within the Adam and O'Connell model the smaller is the elite relative to the population the more likely is the efficient means of rewarding it going to be through private patronage rather than national public goods.

Hence, both democracy and autocracy are each liable to perform worse if the society is diverse. Whether autocracy or democracy is better suited to diverse societies is an important but intractable question. Initial attempts to investigate it statistically find that democracy is considerably more valuable to diverse societies than to homogenous societies (Collier, 2000, 2001; Alesina and La Ferrara, 2005). Although these statistical associations may merely reflect endogeneity, they caution against the inference from the problems that diversity creates for democracy that autocracy may be the solution.

Nor should the association between ethnic diversity and state failure be over-stated. Somalia, currently the most extreme case of state failure, has only a single ethnic group.

Resource-Rich

A large literature has shown that there is often a resource curse. Collier and Goderis (2008) use co-integration techniques to study the time profile of the effects of resource revenues and the channels by which they occur. An advantage is that whereas cross-section results, on which previous literature has largely been based, encounter familiar problems of interpretation, these results come from changes in global prices which can reasonably be taken to be exogenous. They find that in the short run an increase in export prices of commodities raises growth, but that in the long run growth is substantially reduced. The main channel by which this occurs is political rather than economic, being the initial level of governance. Consistent with this, Chauvet and Collier (2008) find that just as a large population increases the speed of exit from the condition of being a failing state, so resource rents significantly reduce it. A doubling of resource rents as a share of GDP approximately doubles the time taken.

Potentially, governance might deteriorate in three distinct ways. First, in a democracy resource rents might reduce the efficacy of electoral accountability. Second, in an autocracy resource rents might reduce the efficacy of accountability to the selectariat. Third, resource rents might alter the likelihood of democracy relative to autocracy. There is some support for all three of these possibilities.

Mehlum *et al*. (2006) find that the quality of institutions is particularly important in resource rich countries. An obvious reason is that since resource revenues accrue to the government it is responsible for a larger share of GDP than in countries that lack them. Collier and Hoeffler (2008) extend these results, investigating the effect of natural resource rents on the performance of two aspects of democracy. With performance measured by economic growth, they find that in the absence of resource rents democracies significantly outperform autocracies, whereas if rents are large relative to GDP autocracies outperform democracies. The critical point at which the two have equivalent effects is when resource rents are around 8 percent of GDP: many resource-rich economies have a share well above this level. They decompose democracy into checks and balances, proxied by a cardinal measure of up to 17 such veto points on executive power, and a residual which can be thought of as electoral competition and is proxied by the Polity IV index, a commonly used political science scale of democracy. They find that both have powerful and opposite interactions with natural resource rents:

checks and balances significantly improve performance whereas electoral competition significantly reduces it.

Further, whereas resource-rich countries appear to need a form of democracy with strong checks and balances, they tend to get the opposite. Collier and Hoeffler show that over time resource rents gradually erode checks and balances. Thus it appears that resource rents undermine the normal functioning of democracies unless strong checks and balances can be defended. They develop a simple model in which resource rents have such an effect. A crooked politician embezzles public revenues to fund vote-buying unless restrained by public scrutiny, so that expenditure on public goods is the residual left once the politician has embezzled. The key component of the model is to endogenize scrutiny: they assume that scrutiny is a public good that is only supplied to the extent that citizens are provoked into it by the taxation of private incomes. The crooked politician thus faces a constrained maximization problem. In the absence of natural resources if he does not tax he has more freedom to embezzle but there is no revenue. If he taxes heavily there is plenty of revenue but little scope to embezzle it. Hence, there is a Laffer curve in embezzled revenue with an optimizing rate of taxation. Resource rents change this optimization problem: the politician does not want to provoke scrutiny because although higher taxes would raise more revenue, embezzlement of the resource rents themselves would be curtailed. They show that within this framework resource rents always lead to worse governance and can easily lead to a reduced supply of public goods. Collier and Hoeffler (2009) extend this analysis, investigating whether natural resource rents affect the conduct of elections. Consistent with the above concerns, they find that resource rents substantially increase the incidence of illicit tactics.

Robinson, Torvik and Verdier (2006) use a rational choice model of democratic politics to show that resource rents will worsen economic management since the rents both increase the incentive for incumbents to retain power, and increase their ability to do so by expanding finance for patronage. Consistent with the results of Collier and Hoeffler (2008) they argue that institutional checks and balances which restrain the ability to use resource rents for patronage are important in avoiding the resource curse.

Now consider the effect of resource rents in autocracy. Robinson et al. (2006) show that the implications of their model for democracy readily extend to autocracy. Within the model of Adam and O'Connell resource rents would increase the value of transfers and so make the interests of the elite more divergent from those of ordinary citizens. Hence, even if the selectariat can hold the ruler to account, performance need not improve for the ordinary citizen.

Finally, resource rents might change the likelihood of democracy relative to dictatorship. Ross (2001) shows that this is indeed the case: resource-rich countries are more likely to be autocratic. He shows that this is not due to simply to the high incidence of autocracy in the Middle East: on the contrary, the autocratic nature of politics in that region is likely to be due in part to its resource abundance.

4: Robustness and Fragility

To summarize the previous two sections, many states are the artificial product of decolonization. Initially impoverished, they rapidly became narrow autocracies in which elites had insecure control. The incentives for rulers were to redistribute rather than build an effective state. As a result these economies stagnated in poverty and so faced a high risk of rebellion. Although this provided a strong incentive for military spending, it was divisive rather than being a national public good. The need for military spending was not sufficiently powerful to promote capacity building: rebellions could often not be prevented, but rebel victory was rare, so that the outcome was stalemated civil war. This was preferable to high taxation which would have provoked accountability and thereby curtailed the patronage system on which power was based.

This syndrome of state failure contrasts with the robustness of state success. Success is robust because the various components are mutually supportive.

The components of effectiveness fit together. An effective legal system increases wealth and thereby increases the incentive for the government to invest in fiscal capacity. An effective tax system increases the value to the state of private wealth and so increases its incentive to invest in a legal system that supports wealth creation. The revenue finances the public goods; the security and justice systems enforce the revenue collection; and the annoyance of paying taxes and the need for good public services provokes the scrutiny which holds the state accountable. Accountability is reinforced by legitimacy which reduces the cost of enforcing compliance both of citizens with taxation and of state employees with their duties.

An effective state tends to become an inclusive state. Three processes tend to induce this sequence. One process is that the same international warfare that provides an incentive to build state capacity also tends to infuse citizens with nationalism and so with common identity, shared objectives, and even a degree of mutual concern. Hence, even if the state does not democratize, those in power may have no reason to be malevolent towards major sections of the population.

A second process is that democratization is a response to the heavy taxation necessary for warfare. This link has been posited ever since the American Revolution, although the first thorough empirical investigation is recent. Ross (2004) used global data to test whether taxation indeed provoked citizens into demanding accountability through greater democracy. He finds that what creates pressure for representation is not the tax burden itself, but the burden relative to the provision of public goods. High taxes combined with poor provision angers citizens sufficiently to force democratization. While there are many pitfalls in the sort of global time series approach that Ross followed, it is the only approach that is feasible given the question, and the results are at least consistent with relationships that are *a priori* plausible.

The third process is that as wealth accumulates revolution by the poor becomes more attractive. To head off revolutionary pressure, governments that represent the interests of the wealthy begin to redistribute income and commit to continuous redistribution by extending the franchise.

Although most of the failing states have now formally democratized, the way in which they have usually done so contrasts with the process in successful states. Democracy was forced on elites during the 1990s in response to the fall of the Soviet Union. Pressure was brought by donors, and democracy also became a fashionable symbol of modernity. Analogous to the way in which during the approach to the first Millennium the rulers of the proto-states of Europe had rapidly embraced Christianity, so during the approach to the second Millennium, the rules of failing states embraced democracy.

The piecemeal introduction of individual components of this system by either inheritance from colonialism or external intervention is fragile. All failing states initially inherited democratic political institutions which rulers rapidly dismantled. Many of them also inherited fiscal and legal capacity which they dismantled. The post-Independence history of Zimbabwe provides a recent and graphic illustration of this process, since the government had inherited both fiscal and legal capacity of an unusually high standard. The impetus for their dismantlement was the external injection of contested elections during the 1990s which were intended to promote inclusiveness and accountability. Faced with the need to contest elections which it was unlikely to win the government first dismantled the justice system. This permitted it to subvert elections but undermined property rights. As a result of the loss of secure property rights the formal economy went into severe decline so that fiscal capacity became less valuable. The government then chose to dismantle fiscal capacity in exchange for resort to the inflation tax which became its predominant revenue source.

5: Overcoming State Failure

Failing states do not provide security and accountability. In this section I discuss how both the international community and the societies of failing states themselves can work to overcome these deep problems. My arguments are developed more fully in Collier (2009).

One approach, proposed by (2000), is to recreate the conditions under which successful states have historically been forged: namely international military rivalry. By unfreezing the boundaries of failing states they might then go through the same process discussed above. The invasion and occupation of Zaire by Rwanda in 1998, and of Somalia by Ethiopia in 2007, could be seen as an incipient instances of this process.

The encouragement of international warfare is manifestly a drastic and extremely costly way of addressing the problem. Further, it is politically unlikely: the international community would inevitably exert pressure to arrest international warfare and has a considerable record of success in doing so. Fortunately, there need be no logical connection between the causes of a problem and its solution. Addressing the causes can be inefficient compared with introducing new instruments which can achieve the desired outcome. The analysis of the causes remains important, but primarily because they may preclude autonomous evolutionary processes of error-correction. That is, the analysis of causes can justify intervention even though it does not guide it.

If failing states face severe structural impediments to the provision of the two critical public goods of security and accountability, then the alternative is a phase of external provision. If the opportunity constituted by this provision is used for development, external provision gradually becomes redundant. I first consider how the international community can enhance security, and then turn to the more difficult issue of how it can enhance accountability to citizens. Finally, I discuss the scope for new processes internal to the society.

5.1 International Strengthening of Security

Prevention of Conflict

Both the United States and the European Union have recently created military forces designed for rapid deployment in Africa, namely AfriCom and the Rapid Reaction Force. The question is to devise sensible and acceptable rules for their deployment.

In failing states there is likely to be an irreducible need for long term international provision of security. One model which may be consistent both with the budgetary need to reduce costs and with the political need to reduce the visible external military presence is an over-the-horizon guarantee of security. A British guarantee of this nature is currently working successfully in Sierra Leone. Although this is only a single instance, the somewhat analogous implicit French guarantee in Francophone Africa from the mid-1960s to the mid-1990s appears to have reduced the incidence of civil war by around a third (Collier, Hoeffler and Rohner, 2009).

Security in Post-Conflict Situations

The problems of failing states can occasionally get so out of hand that the international community feels compelled to action. Internal security can break down to the point at which there is an international peacekeeping intervention, as in Sierra Leone in 2000 and Haiti in 2004, or the state can become so vindictive towards a section of its own citizens that there is a response under the Right to Protect, as in Darfur. Currently, the United Nations has over 100,000 troops active in such operations.

Collier, Hoeffler and Soderbom (2008) investigate the duration of post-conflict peace by fitting a hazard function to 60 post-conflict episodes. They find that the risk of conflict remains high throughout the decade: there is no early hump which once survived is succeeded by a secure peace. They find that peacekeeping is effective in substantially reducing risks. Collier, Chauvet and Hegre (2009) extend these results to a cost-benefit analysis of peacekeeping for the Copenhagen Consensus project to establish priorities for expenditure on global public goods, concluding that peacekeeping is good value for money. Although it is cost-effective, peacekeeping is enormously expensive. Hence, where possible it is important that it function as an investment, rather than simply as emergency relief. If the risk of state failure is indeed structural, as implied by the above analysis, then the periods of peacekeeping need to be used either to alter the characteristics which are the source of state failure.

Consistent with the more general literature on the risk of civil war, which finds that both the level of income and its rate of growth affect risk, Collier, Hoeffer and Soderbom find the same results in post-conflict situations. This suggests that economic development may be the true 'exit strategy' for international peacekeeping. However, economic development in the situation of a failing state is not merely at best a long term process, it depends upon three distinct actors: the post-conflict government, which determines policy and governance; the donors, who determine the level of financial and technical assistance; and the Security Council which determines the duration of internationally maintained security. There is a case for recognizing this long-term interdependence by an arrangement such as a Compact, in which each party commits to explicit actions conditional upon those of the other actors.

Commitments by government

One commitment of the post-conflict government would be to accountability to its own citizens. The international community has attempted to introduce accountability by insisting on elections but in the typical post-conflict context elections are insufficient to achieve accountability. Indeed, Collier, Hoeffler and Soderbom (2008) find that post-conflict elections typically shift rather than reduce risk of return to violence: the year prior to the election becomes less risky, but the year following the election becomes considerably more risky.

Further, as discussed above, if elections are of low quality then they fail to hold the government accountable to the electorate and so do not improve either economic policies or economic governance. Hence, the government would need to commit to the proper conduct of elections as verified by international observers. Such monitoring is now common, but currently it is not linked to any wider conditionality.

A second essential commitment is to checks and balances on the use of public money for political patronage. At a minimum this requires a transparent budget, again supported by a verification process.

Commitments by Donors

Whether aid promotes growth is an open question. However, in the post-conflict context there is more reason to expect it to be useful: after all, post-conflict reconstruction was the context for which aid was invented following the Second World War. There is some limited evidence that post-conflict aid is more effective in the growth process than elsewhere (Collier and Hoeffler, 2004), and Adam, Collier and Davies (2008) find that it is helpful in restoring post-conflict macroeconomic stability, speeding the recovery of the demand for money following wartime inflation.

Although aid had been invented for post-conflict situations, during the Cold War this aspect of aid fell into disuse and it was only revived during the 1990s. Initially, post-conflict aid was treated as a brief period of exception to the emerging principle that aid would be allocated according to the attained level of policy and governance. For example, the World Bank introduced a post-conflict window in which additional aid was allocated during the first three years of peace. This was evidently too short a period to be useful for development: typically the state was insufficiently effective to spend the money well during this period and had neither the time nor the incentive to build capacity. The window was progressively lengthened and is currently seven years, although even this is probably too short for irreversible economic improvement.

Commitments by the Security Council

Even if elections were to be properly conducted, they need be no guarantee of peace. Collier and Rohner (2008) find that although normally democracy reduces the risk of violence, below a threshold level of per capita income of $2,700 it has the opposite effect, significantly increasing the risk. Failing states are in a range of per capita income well below this threshold. They suggest that the reason why the risk of political violence increases with democracy is that some situations are prone to political violence for reasons unrelated to whether the government is democratic. In these situations repression is the only effective means of keeping the peace, albeit an unattractive one, and that democracy makes repression less feasible. They find that even modest democratization radically reduces the incidences of purges, this being the pre-emptive technology which dictators most commonly use to keep the peace. Hence, at very low levels of income, democratization might at best be a two-edged sword, introducing the possibility of accountability but at the price of a greater risk of large scale political violence.

If post-conflict situations remain risky even with democracy, then there is a need for military security. Potentially, this can be provided by the post-conflict government itself. However, uniquely in post-conflict situations military spending by the government appears significantly to increase the risk of further violence (Collier and Hoeffler, 2006). They suggest that a high level of military spending by the government might inadvertently signal to the opposition an intention to renege upon the terms of a peace settlement and so induce a pre-emptive return to violence.

The Legitimacy of a Compact

A post-conflict compact would require the government to commit to particular actions in return for commitments by donors and the Security Council. Does this constitute an unacceptable limitation of sovereignty? As I discuss below, the governments of failing states have been distinctive in their reluctance to pool sovereignty with their neighbours in regional groups, and in the extraordinary concentration of power within the society in the person of the president. As a result, the president of a tiny economic entity such as Burundi has a far greater degree of power over his society than the power over German society wielded by its Chancellor.

One reason for regarding the degree of power wielded by a typical head of state in a post-conflict society as excessive is that many of the costs of reversion to conflict may be borne by other states. The intellectual basis for the Westphalian Settlement, on which national sovereignty is based, was that whatever a government did to its own population was of little consequence to others. As societies have become more interconnected since the 17th century, the consequences of state breakdown are no longer likely to be confined to the society itself. In a pioneering study, Murdoch and Sandler found that the costs of a civil war could be detected even in states 500 miles from conflict. Building on this work, Chauvet, Collier and Hoeffler (2009) investigate the costs of state failure to neighbours. They find that in aggregate around half of the costs of state failure are borne by neighbours. While neighbouring governments have a legitimate interest in defending their citizens from these costs, they also typically have illegitimate interests in their neighbour's affairs and so cannot reasonably be the repositories of shared sovereignty. Rather, the United Nations might be given the role of representing the legitimate interests of the neighbourhood in post-conflict situations. Since a Post-Conflict Compact would be time-bound, any such shared sovereignty would be temporary, perhaps lasting for a decade.

5.2 International Strengthening of Accountability to Citizens

Peacekeeping is a potent instrument for enhancing security that is already being deployed. In contrast, other than in the context of post-conflict, there is as yet little effective international action to enhance accountability of governments to citizens. In particular, the core problem of the use of illicit tactics in elections has not been addressed. The quality of elections is routinely monitored internationally, by both the European Union and the Carter Center, but such assessments are not systematically linked to any consequential international action.

Although the most obvious way to create an incentive would be to link the conduct of elections to aid flows, there is little reason to expect that such a link would be effective. The long history of donor attempts at aid conditionality suggests that a proposed link would lack credibility. Further, even were it to be credible, the prospect of a reduction in aid is not commensurate with the prospect of the loss of political power and so would be unlikely to deter resort to illicit election tactics. The alternative, proposed in Collier (2009), is to link election tactics to the international provision of security. Governments that came to power in elections judged to be 'free and fair' would be offered protection from the threat of a coup d'etat, using AfriCom and European Union forces in conjunction with those of the African Union. Within the past year four African presidents have been toppled by coups, two of them having come to power through well-conducted elections (the Presidents of Mauritania and Madagascar). Military interventions to restore legitimate government would be popular: there are precedents in Sierra Leone and Haiti where such interventions were welcomed by citizens. However, the key aspect of such a 'red card' against coups is that, were the president to steal an election, the commitment to protect the government would be withdrawn. Since this would be a public act it would, in effect, constitute a green card for a coup. A coup is what presidents of failing states most fear: the risk is significant and the consequences can be fatal. The prospect of a heightened threat of a coup might well deter a president from resorting to illicit tactics: the net effect of such tactics on the expected duration in office need no longer be positive.

5.3 Self-Help through Re-Thinking the State

A Post-Conflict Compact is limited in its application to situations at the extreme end of state failure. However, a much larger group of countries are either clearly failing states, such as Zimbabwe, or are in danger of becoming so. I therefore also consider whether there are ways of making these states more viable that do not depend upon a coordinated package of interventions.

Addressing Small Economic Size

One structural problem I have suggested above is that the country may be too small to reap scale economies for public goods. The obvious solution to this structural problem is federation and the pooling of sovereignty. It is striking that the states that are currently failing have not followed the global trend to such pooling. Over the last two centuries many states have chosen to create legal structures at the regional level that curtailed their sovereignty. During the 19th century the states within the United States of America gradually shifted power from each state to the federation. This shift in the locus of decision is even detectable in language: before the American Civil War the term 'The United States of America' was treated as a plural noun, whereas afterwards it became singular. In the 1940s the territories of British India decided that upon Independence they would divide into only two large polities, India and Pakistan, instead of back into the many small states that had preceded colonization. During the last half-century the European Union has gradually combined 25 states which have agreed to limit sovereignty across a wide range of economic decisions. Unlike Indian politicians, African politicians chose to dissolve the federations forged by the empires: the colonial map of Africa was far less fragmented than the current configuration with Nigeria (Africa's largest country) being the sole exception. Post-colonial political fragmentation enormously increased the opportunities for the political class, multiplying by fifty the number of ministers required for government of the territory.

African governments have launched many initiatives aimed at greater regional integration, including at the political level the Organization for African Unity and its successor the African Union, and at the economic level an array of sub-regional trade arrangements too numerous to list. Yet the practical achievement in terms of economic integration falls far short of other regions. This is brought out by a comparison of California, Maharashtra, and Germany with Burundi. California, Maharashtra and Germany are each over a hundred times as large as Burundi viewed as economic units. Yet in terms of autonomy in fiscal policy, monetary policy, trade policy, exchange rate policy, and the scope for judicial appeal against government, the government of Burundi has radically more power than the governments of California, Maharashtra or Germany. Since Burundi is such a small economic unit its citizens have radically greater need for a supra-national authority than Californians, Mahatashtrans, or Germans, yet they have radically less resort to one.

One reason why African efforts at greater integration have to date yielded so little may be that the efforts at political and economic integration have themselves not been integrated. The approach to political integration has been by means of a Pan-African entity, the African Union, which is so diverse as to be unwieldy: for example, it includes North Africa which identifies more closely with the Middle East than with Africa, and requires agreement among 53 sovereign governments for any action.

In contrast, the approach to economic integration has been too limited, being predominantly be means of sub-regional trade deals. These deals are so numerous and uncoordinated that they are mutually incompatible: governments have signed up to commitments which simply cannot all be met. This generates confusion and undermines the credibility of trade policies. More fundamentally, sub-regional trade deals between low-income countries generate economic forces which are liable to create severe political tensions. As Venables (2003) shows, they generate economic divergence, the poorest members of the integration scheme losing relative to the least-poor members. This is in stark contrast to regional integration arrangements between high-income countries, which generate forces for convergence. Indeed, even the analysis of Venables most probably underestimates the forces of divergence unleashed by regional integration between low-income countries since it rests only on the implications of comparative advantage. Hence, the politics of Africa’s sub-regional trade schemes are almost inevitably going to be fraught.

A more promising alternative would be to learn from three aspects of successful integration in other regions. First, political and economic integration should go hand-in-hand: supra-national entities have to acquire real sovereignty over particular domains of economic activity. For example, currently, despite the many sub-regional trade arrangements, each African country has been negotiating individually both in the WTO and in the Economic Partnership Agreements (EPAs) with the European Union. In contrast, the trade policies of each member country of the European Union are genuinely locked in common and so negotiation is done by the European Commission.

Second, integration is easier if it grows from a small core of states of which none is too dominant. In Europe integration started with just six countries and has progressively grown to 25. In the USA union grew from a core of 13 founding states to its present total of 51. In Africa the most promising such nucleus is the East African Community (EAC), which has a core of three similarly sized states and has already added two new members. The EAC also has the advantage that it is building political institutions which might acquire real sovereignty over some aspects of policy, alongside steps towards economic integration.

Third, the economic agenda should be considerably broader than trade policy. There is scope for common rules in a wide range of economic policies, for example, common rules on investment and taxation which would enhance credibility. There is scope for the provision of common infrastructure: the East African Community used to run an integrated rail system, and power generation and distribution would be better handled at the sub-regional level. Unlike trade agreements, these other areas of policy cooperation are much more likely to generate mutual gains, so that the economic consequences will reinforce rather than undermine the political process.

Addressing Ethnic Diversity

Where sub-national ethnic identities are impeding cooperation and the functioning of elections, there are three approaches that might help to address the problem.

The most desperate is to permit secession of some groups. This was first adopted in Africa with the secession of Eritrea from Ethiopia, and in Europe with the secession of Slovenia from Yugoslavia. However, in the context of failing states secession often splits economic units that are already very small and so intensifies the problem of public goods. Further, since the quest for ethnic homogeneity often has few limits, the precedents set by secession can encourage further secession. In Africa Southern the secession of Eritrea has been followed by an arrangement whereby Sudan may split into two countries following a referendum in 2011, and in Europe the secession of Slovenia was followed by the complete break-up of Yugoslavia with appalling consequences.

One alternative to secession is to formalize the divisions of the society along the lines adopted by Switzerland, Belgium and Canada. This combines considerable decentralization with rules that divide both the budget and public employment according to quotas for each ethnic group. With this approach national identity may be weak, but overt conflicts are contained.

A third approach is for the political leadership to build a common sense of identity. As noted above, in Europe this was done through international warfare, but there are a few examples of peaceful national-building. The crucial role of political leadership in building a sense of shared national identity is demonstrated in a natural experiment analysed by Miguel (2003). Both Kenya and Tanzania are highly ethnically diverse: Kenya has 48 tribes, Tanzania even more. Evidently these tribal identities precede national identity: both countries only became independent in the early 1960s. The two countries had radically different styles of political leadership. In Tanzania the founding president, Nyerere, adopted economic policies that are now recognizable as seriously misguided, but he made a huge effort to build a common sense of national identity. A common language was adopted, Kiswahili, the primary education curriculum was reorganized to emphasize national identity, and at the local level the power of decision was shifted from the traditional tribal elders to functionaries of the political party, who were rigidly disciplined not to take tribal identity into account in deciding on resource allocation. By contrast, in neighbouring Kenya the founding president, Kenyatta, adopted economic policies that are now recognized as considerably wiser, but his political strategy was divisive. His own tribe, the Kikuyu, were massively favoured both in government appointments and in public spending. For example, employment in Nairobi, the main Kikuyu city, more than doubled during his presidency, whereas that in Kisumu, the main city of the rival Luo, stagnated. This difference in policies was sustained by the successors to the founding presidents. In particular, in Kenya as the presidency shifted between tribes each president favoured his own. Miguel used this divergence in political strategies to investigate whether there were significant consequences for inter-ethnic cooperation. Nyerere had tried to teach people from different ethnic groups that they could nevertheless cooperate: had he been effective? Miguel compared adjacent regions of Kenya and Tanzania which had very similar ethnic compositions: essentially, the border, drawn by Britain and Germany, had arbitrarily sliced through a common region. Within this region some areas were homogenous and others diverse. He found that whereas in Kenya public goods provision deteriorated markedly with diversity, in Tanzania there was no such effect. Hence, a reasonable inference was that the policy of nation-building pioneered by President Nyerere has been effective in reducing ethnic identity relative to national identity.

Addressing the Resource Curse

As discussed, small, fragile societies are stressed to their limits by the presence of resource rents. The rents generate intense pressures for political control, and are highly volatile, subjecting the budget to booms followed by busts. However, except in some post-conflict situations, the international community has no power over the governments of resource-rich countries. For example, the government of Angola is getting revenues from oil and diamonds larger that the entire aid flows to all low-income countries. Hence, any strategy to help these societies can only be based on voluntarism.

One such approach is for the international community to introduce a Resource Charter with clear standards for the key decision points that determine whether resources are harnessed for development. Experience with the Extractive Industries Transparency Initiative (EITI) suggests that even voluntary standards can be effective. The EITI was launched in 2002 as a standard on the reporting of resource revenues by both companies and governments. To date some 23 governments of resource-rich countries have signed up to it, committing them to a process of monitoring and verification. While the EITI was the right issue on which to start, transparency alone is insufficient to ensure that revenues are either properly generated or well-used. Collier (2008) discusses five decision points each of which might be suited to an international standard.

Rethinking the Delivery of Basic Services

Many failing states lack the capacity to deliver basic social services to their citizens. An extreme instance is Haiti where not only is overall supply is inadequate, but a large majority of services are provided by NGOs and the private sector.

The key drawbacks of NGO/private provision are that it is of variable quality, some of it far too low; uncoordinated in geographic coverage and seriously undersupplied in some areas; expensive to end-users because it is insufficiently subsidized; and totally detached from government and therefore not enhancing citizen confidence in the state. For this reason, donors commonly attempt to build an effective state on the European model of state supply. However, the European model presupposes a context that does not apply in these states. An alternative is to build on the offsetting advantages of NGO and private provision. At its best quality is very good and costs are low relative to service; it is able to avoid many of the problems of staff motivation that typically beset public provision; and it can be flexible and responsive to opportunities.

One approach is for the government to have closer involvement and control of NGO and private provision. A possible model is that of the Independent Service Authority (ISA), in which a quasi-independent public agency coordinates and co-funds NGO and private sector provision. An ISA is a public agency outside the civil service, somewhat analogous to an independent central bank, or an Independent Revenue Authority, which implements government policy but does not set policy, this being the task of the relevant social service ministries. For example, the Ministry of Health might set minimum standards of quality and maximum levels of charges for those health facilities in receipt of ISA support. An ISA has three functions. The first is to take in money from donors, government and any other potential sources (this can be included in the national budget process). The second function is to channel this money to a wide range of NGO and private service providers by entering into contracts with them, in the process meeting such requirements as set by the ministries over matters of quality and geographic coverage. The third function is to monitor the performance of service providers in such a way that it is comparable, thereby generating yardstick competition: contracts with the least satisfactory providers would not be renewed and those with the most satisfactory would be scaled up. Crucially, the ISA would have a Board with a government majority but on which donors and any other pertinent actors would be represented.

One consequence of this structure would be that donors would be co-responsible for the honest and efficient operation of funding for basic social services. It would also provide both government and donors with the flow of evidence necessary to judge the efficacy of public spending. Once donors saw that the system was effective they would then have the reassurance necessary for financing to be increased. Although an ISA can be launched quickly and scaled up gradually, it need not be a temporary institution. It may well turn out to be a more appropriate institutional design than the largely unsuccessful approach taken in the past. However, this issue need not be pre-judged. As a public agency if it proved to be more successful than other forms of provision it could become a permanent feature of the state.

6. Conclusion

Failing states are an important and intractable problem facing the international community. After a phase of optimism in the 1990s, success now appears more illusive. In this paper I have tried to show that recent developments in political economy provide some basis for rethinking policy towards failing states. My argument has been that the classic process by which effective and accountable states have been forged has not been followed by the many small, low-income countries that suddenly found themselves independent following decolonization. Instead, some of them have structural characteristics which make it extremely difficult for them to supply the public meta-goods of security and accountability without which economic development is liable to be frustrated.

To date the international community has attempted to address the difficulties of failing states piecemeal. Insecurity has been addressed by short term peacekeeping missions which find themselves extended year-by-year. Accountability has been addressed by insistence upon elections. Inadequate provision of basic services has been addressed by linking aid to attainment of the Millennium Development Goals. I have suggested that such a piecemeal approach is liable to fail. Instead, I have suggested three complementary approaches. In the context of post-conflict interventions, where the international community has real power, I have proposed a package of mutual commitments which would temporarily limit the sovereignty of post-conflict governments in return for the credible prospects of transformation. Other than in post-conflict situations the international community has little power. I have suggested how it might harness for good the far greater power constituted by the domestic military forces of failing states. In effect, I propose a guidance system for the currently unguided missile of the coup d'etat. Finally, I have suggested ways by which the citizens of failing states might reshape their states, building larger entities, forging national identities and shifting functions.

The proposals are admittedly radical, although far less so than the despairing thesis that failing states will only develop by following the murderous path by which European states became effective.

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