

## **POLITICAL UNDERDEVELOPMENT: WHAT CAUSES ‘BAD GOVERNANCE’<sup>1</sup>**

By

**Mick Moore**

The Institute of Development Studies

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**Summary:** The states of the ‘South’, although diverse, tend to be underdeveloped in the political sense: neither authoritative and effective nor legitimate and accountable to citizens. The conventional response of aid donors is *institutional transfer*: trying to align the institutional configurations of Southern states even more closely with those of Northern polities. This may not be the best approach. The political underdevelopment of much of the South largely results from the ways in which Southern states have been created and political authority shaped through economic and political interactions with the wealthier countries of the North. Political underdevelopment is an outcome of uneven (economic) development. A better appreciation of the nature of these processes could lead to more appropriate policy. History cannot be reversed. But more attention could be paid to the ways in which Northern states currently help sustain political underdevelopment in the South, notably by perpetuating the conditions under which state elites in the South can remain too independent of their own citizens.

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## 1. Introduction

It is generally the poorer countries of the world that suffer from bad governance. If anyone were to challenge that claim, it would be difficult to present them with overwhelmingly convincing empirical evidence. There is no consensus on what actually constitutes good governance; and we have few reliable (quantitative) indicators of the quality of governance for most countries. We cannot realistically expect much consensus around the question of how closely poor governance and national poverty are connected. I am going to assert a connection in this paper, but use evidence and argument to explain a rather more specific problem: why there exists within the poor world a substantial number of really poor performers: regimes that are both (a) ineffective - i.e. are unable to rule many of their nominal citizens or to pursue any kind of collective interest in an authoritative fashion - and (b) arbitrary, despotic and unaccountable. This kind of *political underdevelopment* is a major cause of poverty and ill-being for many of the world's poorer people. It is especially prevalent in the Middle East and in Sub-Saharan Africa. There are large 'patches' of political underdevelopment in Latin America, but they do not always correspond closely with national borders. Misrule and state impotence are found in the poorer areas of some of the big cities and in some more rural tracts, including much of the Brazilian Amazon region and rural Colombia.<sup>2</sup> Levels of political development are often relatively high in South, Southeast and East Asia, but with some conspicuous exceptions, including: Afghanistan-Pakistan (and into the formerly-Soviet Stans); Cambodia-Laos-Myanmar; and, increasingly, parts of Indonesia.<sup>3</sup> By contrast, the standard of governance in much of India is much higher than for many other countries at similar income levels.

I sketch out here a general explanation of the causes of this political underdevelopment. The central argument is that these lie to a large degree in the ways in which interactions with the rich (or 'metropolitan') countries have shaped, and continue to shape, the states of the poor world. 'Bad governance' is neither

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<sup>2</sup> In 'The Browning of Latin America,' Guillermo O'Donnell (1993: 1) suggests colouring the map: blue to indicate the effective presence of the legal state; green to represent intermediate situation; and brown to signal that 'the presence of the state is very low, or even non-existent'.

<sup>3</sup> The former Comecon states are best left aside at present, for they present a bewildering mixture of levels of political development and of governance problems that appear to be in part 'transitional' and in part a reflection of the high reliance of states on unearned income from mineral resources (Russia, some the Stans).

inherent in the culture or traditions of the people of poor countries nor a product of poverty. It is rather the result of the ways in which state authority in the South has been constructed - and is being maintained – through economic and political interactions with the rest of the world. The policies and practices of Northern governments and the pattern of international economic transactions help sustain poor governance in the South. International aid and development agencies have identified ‘bad governance’ as a major obstacle to economic growth and to improved welfare in poor countries. They are putting significant resources into trying to change that situation. Increasingly, aid is being conditioned upon performance and intentions of recipients in relation to ‘governance’ issues, whether labelled corruption, institutional development, democracy, capacity building, transparency, rule of law, human rights, or something else. It is striking that this degree of intervention into politically sensitive issues has taken place without stimulating a more vigorous search for an explanation of the underlying causes of the problem. Why should ‘bad governance’ be relatively concentrated in poorer countries? The aid and development agencies themselves appear not to have asked this question in a very sustained way. Insofar as an answer to the question is implicit in their behaviour, it would appear to be some notion of *institutional deficit*: poor countries lack the appropriate governance institutions, that are found in rich countries, in the shape of auditor-generals, police academies, independent central banks, legislative committees, responsible municipal governments, freedom of information laws, judicial autonomy, public policy research institutes, and many other things. I do not suggest that the donor strategy of institutional transfer is completely misguided. My case is rather that it may fail to address the major causes of governance problems.<sup>4</sup> I suggest here that improved understanding of the roots of political underdevelopment could show us better ways of promoting good government in the South.

The central argument of this paper is nested at two levels. The broader thesis has already been summarised above: the fact that political underdevelopment is found

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<sup>4</sup> It is ironic that aid donors should focus on institutional transfer when the institutional configurations of poor states are in most cases already very similar to those of rich states. In historical perspective, the states of the world have never appeared so similar to one another as they do at present (Tilly 1992: 195). This emphasis on institutional transfer of course in part reflects the absence of alternative ideas about how usefully to spend aid money to improve governance. But it does also stem from messianic views of the virtues of democracy in American culture and, increasingly, from the willingness and capacity of the European Union to project onto the poor world as a whole the same governance agenda that it imposes, with success, on the states aspiring to join the Union: i.e. the adoption of European institutions (Olsen 2000).

especially in poor regions of the world largely results from the ways in which 'Southern' states have been created and political authority shaped through interactions with the wealthier Northern countries in the context of global economic and political systems. The more specific argument is that political underdevelopment stems to a large degree from what might be termed a 'disconnect' between states and citizens. Compared with the states of the rich world, those of the poor world tend to be relatively independent of their citizens: to have autonomous sources of finance and other critical resources; and/or be able to use international connections and resources rule over their citizens in a relatively unrestrained fashion. In poorer countries, public authority has been constructed in a context in which there has been less bargaining between states and (organised) citizens than has been the norm during the process of state construction in the North. In the South, state elites have more often either ignored their citizens or related to them more coercively – and have been able to do so because of the resources and support they (state elites) could garner from their relations with other states, the international state system and international markets. This is not to suggest that poor world states are basically similar. They appear relatively homogenous in their formal organisational characteristics, but are actually very diverse in their actual functioning (Tilly 1992: 195). The effective differences between, for example, the states Cuba, India and Mali are much greater than the differences among any three OECD states. The heterogeneity of states of the South reflects widely divergent histories of state formation and maintenance. There are however important common elements to this history. The set of international factors listed below have, in different combinations, and in interaction with one another, had a strong influence on the current configurations of states in the South. The essence of the story is simple: the states of the South are different from those of the North because they emerged into an international environment already dominated by the relatively rich and powerful 'Northern' states. Politically, these 'Northern' states have directly and indirectly created, shaped and controlled the states of the South – and continue to do so. Economically, the wealth of the Northern states has created lucrative markets for many products from the South and provided strong incentives for groups within Southern states to control marketing of these products. In exchange for the profits from oil, diamonds, narcotics, timber and other commodities, powerful Southern groups, including both state elites and their armed challengers, have been able to purchase in international markets military hardware that provides them with overwhelming coercive force in relation to their own populations. The place of the South in the international economic division of labour creates incentives for both coercive rule and civil war.

The essence of the story is simple, but the details are complex. The emergence of Southern states is too broad to provide a framework for the argument that follows. Instead, I suggest that story can best be told by identifying seven separate, interactive components, each with political and an economic dimensions. For ease of later exposition, each of these causes of political underdevelopment is given a separate label:

- Unnatural birth: Some poor states, notably in Africa, were created rapidly, in the late nineteenth century, within artificial borders, as a result a rapid conquest by European colonisers who enjoyed overwhelming military superiority.
- Incomplete state formation: Many poor states were created as formal jurisdictional entities, and recognised as such internationally, when state elites had little motivation effectively to extend central bureaucratic control over economically and spatially ‘marginal’ territories and populations. These marginal areas were never effectively penetrated by modern bureaucratic rule, and are locally controlled by a wide range of local elites, who rely heavily on coercion. These same areas may be havens for illegal activities that have an international dimension: the production and/or smuggling of narcotics, timber, diamonds and weapons.
- History of external control: Many states in the South have a long history of direct or indirect external control. Many have been colonies, ruled by civil and military bureaucracies responsive mainly to the colonial power. Many others have been ‘puppet states’, managed by local elites who depended militarily and financially on a global power, and could rule with little regard for the concerns or interests of their own citizens.
- The declining cost of military superiority: Contemporary poor countries have the ‘opportunity’ to export primary commodities to high income international markets and to use the dollars to purchase military hardware that constitutes overwhelming force in relation to their civilian populations. These kinds of opportunities were not available in earlier centuries: actual or potential state elites were relatively much more dependent on the cooperation of significant fractions of their own citizens to create and maintain military superiority. The fact that internal military superiority can so easily be achieved by buying hardware on international markets creates incentives for both coercive rule on the part of those who control the state and valuable export resources, and for frequent armed challenges for control of the state from other groups.
- International criminal networks: State elites in poor countries are often engaged in symbiotic – but politically corrosive – relationships with international networks engaged in illegal activities, notably trading and smuggling narcotics, timber,

diamonds, toxic materials and weapons, and laundering the financial proceeds. They exchange their control of territory and internationally-recognised authority for large financial gains, and thereby become more powerful in relation to citizens.

- Unearned state income: State revenue can be considered ‘earned’ to the extent that the state apparatus has to put in organisational and political effort in working with citizens in order to get its money. European states were constructed in the process of earning an income. That created incentives for bargaining between states and groups of citizens, which historically played a major role in institutionalising representative legislatures and, less directly, democracy and civil liberties. Many contemporary states in the poor world live to a high degree on ‘unearned income’ – mainly mineral revenues or development aid – and correspondingly face limited incentives to bargain with their own citizens over resources or to institute or respect democratic processes around public revenue and expenditure.
- Competitiveness of aid donors: In the highly aid-dependent states, the typical mode of aid disbursement, that involves de facto competition between a multiplicity of donor agencies, is also politically corrosive.

This is clearly an enormous agenda. I can only deal with it within the confines of one paper by simplifying complex issues and being selective:

- Conceptually, I am trying to keep the notion of political underdevelopment relatively narrow. My definition of political development is: the extent to which (a) states exercise legitimate authority within their territorial borders and in interactions with other states and extra-territorial authorities; and (b) that legitimate authority stems from the binding consultation with citizens and is exercised with regard for the preferences of citizens. This focuses very much on states. What about globalisation, global government, and other non-state forms of legitimate political authority? Should these concerns not feature in a definition of political development? My answer is simply: one thing at a time. The focus here is on explaining the urgent problem of weak and arbitrary public authority in many of the world’s poorest countries. If we shift to a different problem and context, we can define ‘political development’ differently.
- Substantively, I devote most time to exploring those aspects of the explanation of political underdevelopment that are most novel. In particular, I pay special attention to the consequences of high dependence on *unearned state income*.

## **2. Political Development and Political Underdevelopment**

‘Economic development’ is measurable, albeit in a contested way, on a single scale: for all its problems and limitations, relative GNP per head is meaningful and significant. ‘Social development’ is a little more contested, because any measure combines separate indicators, and there is always scope to disagree about what indicators should be included, and how they should be weighted.<sup>5</sup> ‘Political development’ is fundamentally contested. Two of the reasons are especially relevant here. One is that any attempt to use the concept implies some assessment of the performance or adequacy of political institutions. And there is no consensus about which political institutions one should take into account. National states? Yes, (unless one is an anarchist and respects only local, voluntary authority). Supra-national institutions, whether global or regional? Probably yes, but how to weight their importance in comparison with national states? Sub-national territorial authorities? Ditto. Non-state institutions, such as voluntary civic associations or trades unions? Ditto, but which ones to include? Where do we stop? Overlaying that dissensus about the intrinsic significance of different kinds of governing institutions, there is in political science and political philosophy, a deep-rooted and continuing fundamental divide between two attitudes to authoritative political institutions, especially to the state.<sup>6</sup> Liberals view state power primarily as a (potential) threat to the well-being of citizens, and define good governance primarily in terms of legal, constitutional and other arrangements that protect against this threat. They warm to terms like responsiveness, accountability, democracy and participation. By contrast, statist see the state primarily as a means of aggregating power and resources that may be used for the collective good. They view the weakness of government - manifested as disorder, vulnerability to external threat, or failure to provide public services - as the prime potential problem. Statists therefore tend to interpret good governance in terms of arrangements that promote the coherence and effectiveness of the state. They warm to terms like authority, order, capability and autonomy.

It follows from all this that the term ‘political development’ has a fractious history. There has been an intense academic debate about what the phrase might mean and

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<sup>5</sup> We can fairly easily find reasonable measures of formal education and literacy, mortality and longevity. But how far should an index of social development include measures of gender equality, crime, social exclusion, drug use, mental illness or social harmony? How would we measure these things? And how would we weight them?

<sup>6</sup> For a summary presentation of these two perspectives, see Poggi (1978: chapter 1). The best-known statement of the statist case in relation to developing countries is Huntington (1968).

whether it is a useable concept at all. Despite occasional proclamations of a revival since its hey-day in the arms of 1950s/60s modernisation theory, it has largely dropped out of academic usage. Evidently for ‘diplomatic’ reasons, ‘political development’ not entered into the contemporary vocabulary of international organisations concerned about issues they label as ‘governance’. I use the concept in a targeted way, to address a specific set of issues. There are many countries in the world that signally fail to meet either the liberal or the statist criteria for reasonable governance. Their states are both (a) relatively ineffective - i.e. are unable to rule many of their nominal citizens or to pursue any kind of collective interest in an authoritative fashion - and (b) relatively arbitrary, despotic and unaccountable. As far as one can tell - and we have no numbers to demonstrate this - the two kinds of failure tend to go together most of the time. Correspondingly, states that score high on liberal values (responsiveness, accountability, democracy, etc.) also tend to score high on statist values (authority, order, capability, etc.). The notion of a conflict and trade-off between liberal and statist values, that animates so much political thought and routine political debate, does not appear relevant at this level of broad cross-national comparisons. At that level, the two sets of values are complementary rather than conflictual. We can usefully describe as ‘politically underdeveloped’ those countries that score low on both sets: where governments exercise little authority and, insofar as they rule, do so in an arbitrary and unaccountable manner. Understanding why that type of governance characterises so many poorer countries is the object of this paper.

### **3. The Causes of Political Underdevelopment**

What factors might begin to explain the crude correlation, on a global scale, of poverty with poor governance? Suppose we leave aside for the moment the kinds of *interactionist* arguments advanced in this paper: that bad governance has been historically constructed through interactions between ‘North’ and South’ in a general context of inequality and uneven development. Then only two other explanations appear possible:

- The first is not significant in an intellectual sense, although widely held: the notion that ‘bad government’ (or some other developmental pathology) is rooted in the ways in which particular kinds of people think, behave or understand the world, by virtue of their cultural identity. All too often, in the writings of Africanist scholars (and many Africans), it is African-ness - understood as a given set of cultural traits, rather than as a reflection of the specificities of African

history - that underlies bad government.<sup>7</sup> These culturalist arguments are not to be taken seriously: first because they are not testable; and second because the general explanatory track record of such arguments in macro-societal analysis is very poor.

- The second argument is, in its broadest formulation, that the socio-economic structure associated with a productive or 'modern' economy supports or stimulates good government - and, conversely, that the socio-economic structure associated with an underdeveloped economy supports the opposite. The only elaborated version of this argument that I have seen traces causal chains from (a) the socio-economic structure associated with a high income economy only to (b) democracy - not to good government more broadly.<sup>8</sup> This material emerges from explanations of the strong empirical association, between countries and over time, between national income levels and democracy. High per capita national incomes do generate democracy. Why? There are three main variants of this socio-structural explanation. The first is that high incomes tend to generate large middle-classes, who have both (a) the resources to demand a say in their own government and generally hold that government to account; and (b) the strong desire to do these things once other more pressing material needs are satisfied. The second is that high income economies tend to give rise to proletariats that are (a) able to organise politically because of their concentrated conditions of working (in factories) and living (in cities); and (b) motivated to do so because they have a great deal to demand of states. The third argument is the obverse of the others: in high incomes societies, the most consistently anti-democratic class known to recent history - agrarian landlords - exercises relatively little power.<sup>9</sup> There is a more diffuse argument about the affinity between the 'modern' economy and

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<sup>7</sup> Some of the scholars who appear to me to be the strongest proponents of these culturalist arguments are the most vociferous in asserting that their interpretations are deeply rooted in specific, local history - e.g. Bayart, (1993). Immersion in local history, uninformed by comparisons, is essentially culturalist.

<sup>8</sup> There is another line of argument that could be developed. There has been a consistent connection between the national wealth and the ability of states to appropriate a share through taxation. As Voltaire remarked 'In all civilised countries, taxes are very high because the responsibilities of the state are very heavy' Williams (1994: 78). The same pattern prevails today (Cheibub 1998). Building on the arguments summarised in Section 6 about the ways in which tax-seeking creates an effective state apparatus, one could make a plausible argument that there is a strong elective affinity between levels of national income and the general capacity of states: ineffective states are unlikely to develop their resources and become wealthy.

<sup>9</sup> For a more extended summary of this literature, see Moore (1996: 54-7). The issue is treated excellently by Rueschemeyer et. al. (1992).

democracy that encapsulates these specific explanations about the consequences of changes in socio-economic structure and puts them in a broader context:

"From Taiwan to China, from the Soviet Union to South Africa, from Brazil to Thailand, economic development has some strikingly similar effects: physically concentrating people into more populous areas of residence while at the same time dispersing them into wider, more diverse networks of interaction; decentralising control over information and increasing alternative sources of information; dispersing literacy, knowledge, income and other organisational resources across wider segments of the population; and increasing functional specialisation and interdependence and so the potential for functionally specific protests (e.g. transit strikes) to disrupt the entire system. These effects would figure to be, and probably are, more rapidly experienced within the context of a market economy, but they have registered intensely in communist systems as well with the expansion of education, industry, and mass communications" (Diamond 1992: 484-5).

There are good grounds for thinking that there is an intrinsic causal linkage from high incomes to democracy.<sup>10</sup> Given that democracy in the broad sense - the ability of citizens to control the leadership of the state in an institutionalised fashion - is an important component of political development, we are probably justified in thinking that bad government is to some degree concentrated in poorer countries because they are poor. But we cannot demonstrate this convincingly, let alone measure the strength of the connection. It seems unlikely that this relationship alone explains much of the variation in political development that we observe over time and space. It would not, for example, help account for the fact that standards of governance were relatively good in many West European countries before they became wealthy. Such a determinist argument is also unhelpful from the policy perspective, because it leaves no scope for positive intervention. If the quality of government really were largely a reflection of levels of national income, then it would be a waste of time and effort to even think about improving governance as a means of stimulating economic growth. Economic growth would in time take care of the governance problem.

To begin to reach a plausible explanation of inter-national variations in governance, we need to explore in more detail the interactionist perspective sketched out in Section 1.

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<sup>10</sup> Note the lack of any convincing evidence of any consistent connection between type of government and rate of economic growth. Democracy does not lead to high incomes (Przeworski and Limongi 1993).

#### 4. Interactionist Arguments

The most venerable interactionist explanation of political underdevelopment - classical (i.e. 1950s American) modernisation theory - was briefly the staple idea in the field of 'politics of development'. Modernisation theory began with a largely optimistic perspective on the question of whether poor countries would emerge happily through the transition phase from traditionality to modernity. However, some modernisation theorists began to emphasise the perverse political dimensions of the transition process: the stresses on the polity that transition implied, especially the strain of accommodating rapid increases in the level of political participation for political systems adapted mainly to 'traditional' (non-participatory) forms of rule. Samuel Huntington (1968) in particular developed this pessimism to take modernisation theory away from its liberal roots to a statist paradigm emphasising the priority of order and authority over the representativeness and accountability of political institutions. The memorable opening words to his book are: 'The most important political distinction between countries concerns not their form of government but their degree of government' (1968: 1). Valuable as Huntington's book is in many respects, the notion that the governance problems of poorer countries could be traced to some (measurable) concept of a transitional status between tradition and modernity has failed the evidence test. Modernization perspectives on political development are now served up to students mainly as a grizzly reminder of the primitive conditions of intellectual life all those decades ago. They are however valuable on one important point: the emphasis on the obstacles to effective state formation in poor countries that stemmed from the existence of richer and more powerful states.<sup>11</sup>

Any satisfactory explanation of why contemporary poor countries tend toward bad governance must simultaneously explain the other sides of the coin: why most industrial states tend to have relatively good governance now and, in some cases at least, enjoyed relatively good governance when they were poor. Space constraints prevent me from dealing in any detail here with this latter side of the story. Insofar as I do so, I focus on the implications of differing sources of state revenue (Sections 5 and 6). Otherwise, much of my argument about the industrial (OECD) states is implicit in what I say about poor countries. If forced to summarise the differences

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<sup>11</sup> Within the modernization theory perspective, the modernization process was politically difficult because it was forced and accelerated through interactions between developing and developed countries.

between the two sets of cases, I would first issue many shrill warnings about crude generalisations, and then make three:

- The states in the rich countries have generally been shaped slowly, whereas those in poor countries have often been created or re-created rapidly, notably through European colonisation and (sometimes rapid) independence.
- The formation of states in the rich countries has generally involved a considerable amount of interaction and (implicit) bargaining between state elites and citizens, notably bargaining over the terms under which citizens would provide key resources to the state: money and military service. By contrast, state elites in poor countries have enjoyed more autonomy in relation to citizens, depended less on their consent, and been more able either to ignore or to coerce them.
- The states in the rich countries were formed when the differences of wealth and (military) power among them were relatively limited. States in poor countries emerged in a world dominated by a small number of relatively very rich and powerful states, in which large surpluses could be earned from exporting some commodities to international markets. Poor states were often directly constructed and shaped by rich states, or were dependent on them. State elites in poor countries can often maintain their position and power through their privileged connections with rich states and control of access of global markets.

We will present the mechanisms in a little more detail. Seven were listed in Section 1. I deal in this section with the first five, leaving for Sections 5 and 6 the two mechanisms oriented around issues of state revenue.

(i) Unnatural birth

Many Third World states are both relatively recent and the product of simple, brutal (colonial) conquest. This is especially true of Sub-Saharan Africa, where colonial conquest was relatively recent and swift, and took place in a context where the differences between conquerors and victims in military and organisational technology were unusually large, where the process of re-drawing the borders of pre-colonial polities was especially radical, and where there was relatively little co-option of local elites into the system of colonial rule (Young 1994). Colonial and post-colonial states were often rooted more in the arid soil of coercion and conquest than in the rich compost of history, tradition, cooperation and consent. The states of the rich countries have had longer to mature. Independence constituted a further political trauma, especially for those colonies for which little preparation had been made. Poor countries that at independence inherited relatively mature political and administrative institutions - such as India, that benefited from both the Congress Party and the Indian

Civil Service - fared far better than ‘those unfortunate states, such as the Congo, which were born with neither political nor administrative institutions’ (Huntington 1968: 85).

(ii) Incomplete state formation

Parts of the South, notably most of Sub-Saharan Africa, suffered a brutal and sudden colonial conquest (above). Colonial rule was often authoritarian and harsh. These kinds of facts have helped create and sustain the impression of a heavy imprint of (colonial) states on the societies over which they ruled. This impression is to a significant degree wrong. The imprint was actually very light in some areas and in relation to some populations:

“... pervasive violence and control should not be confused. The extent of violence was, in many ways, not an indication of control but the result of the very limited presence of administrative structures in many areas outside the major cities. When the colonialists wanted to get something done, they had to use force rather than the regular sinews of government’ (Herbst 2000: 91).

State formation in much of the South, especially in Sub-Saharan Africa, has often been incomplete in the sense that states, whether colonial or post-colonial, have often ruled very lightly – and sometimes barely at all – over significant territories and populations. Jeffrey Herbst (2000: especially chapter 3) has recently explored this issue in detail, and demonstrated the incompleteness of the ‘scramble for Africa’ that was formally terminated by the Congress of Berlin (1884/5). The European colonial powers divided Africa among them. They drew boundaries on the map; but they often did not police these boundaries on the ground, nor make much effort to rule those rural populations and territories that had neither strategic nor economic value:

“Nothing so epitomizes the limited ambitions of many colonial states, and the failure to establish empirical statehood, as the small size of the security forces that existed in the colonies through the terminal colonial period. In the British-ruled colonies, even during the terminal colonial period, when security forces might have expected to have burgeoned due to the nationalist upheavals, the number of men in arms was seldom over one per thousand civilians compared to one in a hundred for Britain and other developed countries” (Herbst 2000: 79).

In effect, in relation to Africa, the European colonial powers partially suspended a key and long-standing norm of international relations: the principle that effective control of territory and populations - the demonstrated capacity to resist internal and external political rivals - was the main condition for recognition as the legitimate ruler. The

suspension of this principle meant that colonial rulers in Africa did not need to complete the elementary processes of state formation – the monopolisation of armed force by the state, and the enforcement of state law over alternative norms and institutions. There were significant parallels in other parts of the South where state elites, whether colonial or comprador, lived mainly from control of the surpluses from commodity exports. They contented themselves with keeping quiescent, rather than directly and effectively ruling, populations and territories that were not integral to the functioning of the commodity export economy. In much of Latin America, for example, central states tried to maintain a monopoly of large scale armed force, but did not enforce the rule of state law in peripheral areas. There, local elites ruled in their own ways.

Changes in the international system since 1945 have helped perpetuate conditions under which state elites located in capital cities formally reign over territories and populations they do not actually rule. Once, the United Nations Organisation was created and the former European colonies in Africa, Asia, the Pacific and the Caribbean became independent, the operative rules of the international state system were substantially re-written. Effective control of territory and populations is no longer the main condition for recognition of statehood by other states. To be the successor to colonial rule was itself adequate to guarantee formal recognition and the more substantial material resources, including international aid, which accrue to those holding governmental power. In most of the ex-colonial world, but most strikingly in Sub-Saharan Africa, Darwinian processes of inter-state competition were not only discouraged, but positively ruled out by the new international and regional state systems. Governments that lost effective control of some of the populations and territories over which they nominally ruled did not – as they had historically in Europe and most of the world - as a matter of course fear wholesale predation on the part of their neighbours. There was conflict aplenty, but almost all internal (Tilly 1992: 201).<sup>12</sup> The incentives for state elites to maintain control of their territories and populations - to rule as well as to reign - have thus diminished in favour of incentives to nourish connections to the international state system (Jackson 1990).

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<sup>12</sup> This comparison is not intended to imply that a phase of intra-state warfare in Africa - as is now underway in the Great Lakes region - would have positive consequences for the formation of African states. The reasons will become clear in the text. The benign effects of war on European state formation were historically specific, and cannot be generalised, as is made clear by Centeno's (1997) exploration of the question of whether warfare contributed to state-building in nineteenth century Latin America. His answer is negative.

(iii) History of external control

Neo-colonialism is a pejorative and contested term. It does however accurately capture the essence of the relationship between Northern powers and state elites in many poor countries for much of the last century in particular. When most of Africa, the Caribbean and much of Asia were ruled directly as colonies, neo-colonial relationships characterised most of Latin America and much of the Middle East. After formal de-colonisation, similar relationships were developed in Francophone Africa in particular. The Cold War certainly provided some Third World elites with the kind of bargaining position in relation to great power rivalry that had earlier in the century been confined mainly to some puppet and quasi-puppet regimes in the Middle East. However, the existence or absence of external bargaining options appears to have made little difference to the implications of neo-colonialism for internal state-society relations. In either case, access to external resources - including cash, military equipment and the prospect of direct military intervention and support - helped free elites from dependence on their own citizens, and turned internal political support to an optional extra rather than a basic necessity for effective rule (Tilly 1992; Luckham 1996: chapter 7).<sup>13</sup>

(iv) The declining cost of military superiority

Groups that control territory in contemporary poor countries have an historically unprecedented capacity to purchase military force to keep themselves in power.<sup>14</sup> In some circumstances, control of valuable commodity exports generates more effective coercive power in relation to local populations than has been available at other points in history. And those circumstances have become relatively common. The point is not simply that export commodities buy arms. It is that the terms of trade have shifted over the course of history to favour those who have something to export and who exercise illegitimate or contested rule over an unwilling population. Second, opportunities have increased to exchange revenues from export commodities for armed force.

What options were open to a militarily adventurous prince in, say, seventeenth century Europe? There was no problem about the idea of buying both armaments and troops on (international) markets. Indeed, the market relationship was the dominant

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<sup>13</sup> "To the extent that their states generated revenues by selling commodities on the international market, bought arms overseas, and received military aid from great powers, .... the armed forces enjoyed insulation from reliance on taxation and conscription authorised by civilian governments" (Tilly 1992: 200-1).

<sup>14</sup> Boutwell, Klare and Reed (1995) provide a useful discussion of how international trade in small arms impacts on the issues discussed in this section.

means of acquiring military resources. But it was, for two reasons, very difficult for our prince to establish a position of overwhelming military force in relation to the population over which he ruled.

First, the basic military resource in the seventeenth century was live bodies. There was the persistent threat that, if maltreated, subjects could offer their own bodies in resistance or in the service of a challenger. True that they would not necessarily be well armed, and that a pitchfork was not the equal of an early musket or an armoured halberdier. But numbers could partially compensate. The inequality of force was much less than the inequality that exists at present between poor civilians and armed forces equipped with AK-47s, radios and helicopters. The armed force that can be mobilised from everyday civilian life and technology has greatly diminished over the centuries in relation to the force that can be purchased on the international market.

The second reason our seventeenth century prince could not establish overwhelming military force in relation to his subjects was that he had no realistic prospect of acquiring the kind of financial resources to purchase arms that are available today to people who get control of oil, diamonds, narcotics, timber, phosphates or other valuable commodity exports. Such bonanzas were not available in the seventeenth century. The nearest equivalent was establishing control of a remote (in global terms) source of scarce luxury products: the Portuguese, Dutch, and English managed to do this to some degree with silks and spices. The Spanish did it most spectacularly with gold and silver from the Americas - incidentally generating the first large scale case of political and economic decline as a result of 'resource curse' (Karl 1997: chapter 2). But the rents from these activities were (a) small in scale in comparison with their contemporary equivalents and, more important, (b) accessible only to a few states or other extended organisational networks, not to small scale political entrepreneurs who lacked long distance naval power. The contemporary (poor) world is very different. It was to a large degree constructed around the search for and extraction of export commodities that have large markets in the world, partly for mass consumption (narcotics, many beverages), and partly as scarce and valuable inputs into industrial production (oil, many minerals, some diamonds).<sup>15</sup> In comparison with the seventeenth century, there are today relatively abundant incentives and opportunities

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<sup>15</sup> Guano, from Peru, was one of the earliest commodity exports from the 'South' destined for industrial processing or use. In the nineteenth century, 'The availability of guano revenues retarded the development of the state by allowing it to exist without the remotest contact with the society on which it rested and without having to institute a more efficient administrative machine' (Centeno 1997).

to build up a little force, legitimate or illegitimate, to take over the export of a commodity in order to purchase more force. States do it. So too do their local challengers, who face low barriers to entry into this business where (a) control of the valuable commodities is divisible and (b) it is possible to sell them without having to exercise control over large territories or infrastructure.<sup>16</sup> Diamonds and narcotics are the commodities that meet those two criteria most completely, as the people of Angola, Colombia, Guinea, Liberia and Sierra Leone know to their cost. Oil is at the other end of the spectrum: one can rarely build up anti-state force by picking off bits of the national oil industry. Production and control are centralised and integrated. Governments normally keep control of oil revenues until they are overthrown in a coup. Timber comes somewhere between the two: especially in remote areas, such as the forested tracts of Cambodia, Thailand, Laos and Myanmar, all kinds of strange bed-fellows appear to cooperate in relieving governments of the timber revenues to which they are formally entitled.

It is not easy to find a summary form of words for the processes sketched out above. My best shorthand is: 'the increased scope to exchange commodity exports for armed force.' It is important to emphasise that these processes are not mechanical. The 'scope' that exists locally because of the production of some valuable commodity - even an illegal commodity - is likely to generate political underdevelopment only if state authority is already weak.<sup>17</sup> For the purposes of this paper, these processes have two main consequences. First, they give those governments that do control

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<sup>16</sup> Collier and Hoeffler (2000) have made a valuable recent contribution to our understanding of these issues, and undertaken cross-national statistical analysis that indicates that the existence of commodity export sectors is a significant cause of civil war. For it permits groups challenging for state power to build up financial resources, and thus armed force, by preying on the profits from commodity exports. I differ from Collier and Hoeffler on two counts. First, they take insufficient account of the logistic and organisational peculiarities of different types of commodity exports. In particular, it is rarely possible for challengers to begin to 'bleed' oil exporting sectors. They are normally fully controlled by one party or another - and the controlling party is normally the state. (Making allowance for this would explain some 'lack of fit' of the Collier-Hoeffler model in the case of mineral exporting states). My second disagreement with Collier and Hoeffler is more a matter of emphasis. It is not that commodity exports 'cause' civil wars in some general sense. Rather, they play a major causal role in contexts where - for reasons treated extensively in this paper - state authority is anyway fragile.

<sup>17</sup> There are contrary examples. Morocco continues to be the prime supplier of hashish to Europe without the \$2 billion annual illegal earnings generating the worst aspects of political underdevelopment. For the Moroccan state effectively colludes in the business, and leaves little scope for serious political challengers to use it as a base (The Economist, August 19, 2000: 54).

commodity exports a great deal of power relative to their citizens. Second, they contribute to the general militarisation of politics, by creating incentives to take over states by force; and, in the case of the 'divisible' commodities in particular, creating opportunities for non-state groups to carve out separate domains that they rule by force. It is the existence of rich countries, providing powerful weaponry at low cost and profitable markets for export commodities, that makes poor countries vulnerable to these consequences.

(v) International criminal networks

Even where Third World elites (and challengers) are not trading commodities for weapons on international markets, they can exchange their control of territory and their internationally-recognised authority for large financial gains, and thereby become more powerful in relation to citizens. They have much greater opportunities than did European political elites in previous centuries to profit from symbiotic relationships with narcotics and arms smugglers; international companies willing to pay bribes for contracts, mineral exploration rights or places to illegally dump toxic waste; and international banks uninterested in the origins of large sums of cash.

Many of the arguments made above about the perverse consequences for political development of late economic development will be either familiar to readers or at least immediately plausible. Individually they may not be particularly striking. It is only when they are assembled together that one can begin to see their potential explanatory power. That assembly process is however not yet complete. There are two further arguments that need to be slotted into place: *unearned state income* and *competitiveness of aid donors*. Both concern the potentially malign political consequences of state dependence on certain sources of revenue. In terms of the traditions of contemporary comparative politics, it is irregular to give the sources of public revenue a prominent role in explaining variations in the character of states. For that reason we need to take some time to develop the argument and locate it in the context of political science theory.

## 5. Fiscal Sociology

It is striking how infrequently contemporary political scientists even mention issues of revenue and taxation when dealing with variations among states.<sup>18</sup> This contrasts to much foundational political thought, where revenue and taxation issues were believed to be central to understanding the state.<sup>19</sup> The most plausible scapegoat is the theorist who more than any other individual shaped twentieth ideas about the state: Max Weber. Weber's project was to distinguish the modern state from its predecessors by focusing on the organisational means it employed, rather than the functions it performed or the motives that drove state elites. He said relatively little about the latter issues, and almost nothing about revenue and taxation (Pierson 1996: 30).<sup>20</sup> These lacunae were noticed by his contemporaries and intellectual rivals, notably the Austrian social scientists Joseph Schumpeter and Rudolf Goldscheid, who were trying to out-do both Weber and Marx in developing general models of the dynamics of macro-level socio-economic change.<sup>21</sup> They argued the case for what they termed 'fiscal sociology', and asserted with vehemence the central role of the mode of financing the state in driving socio-economic change:

"... the budget is the skeleton of the state stripped of all misleading ideologies."

"The fiscal history of a people is above all an essential part of its general history."

"... our people have become what they are under the fiscal pressure of the state."

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<sup>18</sup> The point is made, with evidence, by Bachman (1987: 1). It is striking that, in the voluminous recent academic literature on developmental states and the East Asian 'economic miracle', issues of taxation and revenue receive little mention, and are certainly not assigned any important instrumental role. The main exception that I have encountered is Nordhaug (1998). Note that I have concentrated on one resource that states demand of their citizens - finance - to the complete neglect of another, that was very significant for many (European) states, especially in the nineteenth and twentieth: military conscripts. Conscripts and money are partial substitutes for one another: low-paid conscripts reduce the financial cost of maintaining an armed force. My reason for ignoring conscription is that the kind of underdeveloped states I am focusing on make very little use of conscript armies. They have no authority to conscript, and rely instead on more instrumental means of acquiring military force, purchasing hardware from overseas and hiring personnel on national or international markets. Margaret Levi (1997) explores the kinds of issues about the political economy of conscription that one would need to deal with had one been dealing with the issue here.

<sup>19</sup> For example, Edmund Burke's 'The revenues of the state are the state', cited in Vanderwalle (1998: 17).

<sup>20</sup> The same can be said about scholars who have written about the modern state from a Weberian perspective, e.g. Poggi (1978).

<sup>21</sup> Goldscheid's work is little known, and only a tiny fragment has been translated into English. It is summarised by Schumpeter (1918/1991).

‘... fiscal measures have created and destroyed industries, industrial forms, and industrial regions even where this was not their intent, and have in this manner contributed directly to the construction (and distortion) of the edifice of the modern economy and through it of the modern spirit. But even greater than the *causal* is the *symptomatic* significance of fiscal history. The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare - all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else.’

“Public finances are one of the best starting points for an investigation of society, especially although not exclusively of its political life” (Schumpeter 1918/1991: 100-1).

The essential contrast that Goldscheid and Schumpeter explored was the historical shift in Europe from the ‘desmesne state’, that lived from properties specifically assigned to the monarchy, to the ‘tax state’, that resourced itself by taxing its citizens. Goldscheid and Schumpeter have made an important contribution by discerning the extent to which the tax state - that employed many people, created a dynamic of state expansion, and introduced new forms of politics - did indeed become something of a driver of societal change - albeit not quite to the extent they rhetorically asserted. Goldscheid and Schumpeter did not begin to explore the contemporary implications of their work for non-Western states, which are often, in their terms, not ‘tax states’. They did however provide some inspiration for a range of other scholars, both directly and, indirectly, notably through the influential historical work of Charles Tilly on the effect of war and revenue-seeking on state formation in Western Europe:

"... the central paradox of European state formation: that the pursuit of war and military capacity, after having created national states as a sort of by-product, led to a civilianization of government and domestic politics. That happened .... for five main reasons: because the effort to build and sustain military forces led agents of states to build bulky extractive apparatuses staffed by civilians, and those extractive apparatuses came to contain and constrain the military forces; because agents of states bargained with civilian groups that controlled the resources required for effective warmaking, and in bargaining gave the civilian groups enforceable claims on the state that further constrained the military; because the expansion of state capacity in wartime gave those states that had not suffered great losses in war expanded capacity at the ends of wars, and agents of those states took advantage of the situation by taking on new activities, or continuing activities they had started as emergency measures; because participants in the war effort, including military personnel, acquired claims on the state that they deferred during the war in response to repression or mutual consent but which they reactivated at demobilization; and finally because wartime borrowing led to great increases in

national debts, which in turn generated service bureaucracies and encouraged greater state intervention in national economies" (Tilly 1992: 206).<sup>22</sup>

Tilly in turn has helped stimulate some very rich recent explorations of the politics of the most significant category of non-tax states found in the contemporary world: oil regimes. There is a substantial recent literature on the political economy of oil states that deals in one way or another with the question of why, despite their access to generous financial resources, these states are, to use my language, politically underdeveloped: undemocratic, despotic, politically unstable, vulnerable to coup and insurrection, and often plain ineffective. The notion that oil states are rentier states has been central to the debate. This is not the place to review that literature in detail. It is highly stimulating and insightful.<sup>23</sup> It does not, however, directly provide a 'plug-in module' to help build a more general theory of the development and underdevelopment of states. For rentier theory imposes too crude a contrast between oil states and (assumed) 'normal' (i.e. developed) states. Rentier theorists generally do not locate oil states within a framework that takes account of the diversity of types of state in the world, or of the fact that it is not only oil states that are underdeveloped in the sense set out above.<sup>24</sup> For present purposes, this rich body of work on rentier

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<sup>22</sup> The book also contains a final chapter making comparisons with contemporary poor states. For a recent detailed critique and modification of aspects of Tilly's work, see Ertman (1997).

<sup>23</sup> I have drawn heavily on: Anderson's (1994 and 1995) very insightful summaries of Middle East politics; Chaudhry's (1989 and 1997) comparison of the political consequences of oil in Saudi Arabia and labour remittances in the Yemen; and two excellent country monographs in the rentier theory tradition - Karl (1997) on Venezuela, and Vandewalle (1998) on Libya. There is also a monograph on Gabon (Yates 1996). Rentier theory has become so well established in Middle East studies that it has recently generated the counter-thesis, in the form of a book that asserts 'other things matter too' (Herb, 1999). Hobson (1997) has written a book that attempts to employ the 'fiscal sociology' approach to the state to explain nineteenth century trade regimes. While his first chapter contains a very useful review of the relevant literature, it is questionable whether the author has succeeded either in appropriately using or developing the insights of Goldscheid and Schumpeter. (See the review by Bob Jessop in American Political Science Review, 93(1), March 1999: 240-1). The best critical reviews of the rentier state thesis and related literature are by Ross (1999 and 2000) Hobson (1997) has written a book that attempts to employ the 'fiscal sociology' approach to the state to explain nineteenth century trade regimes. While his first chapter contains a very useful review of the relevant literature, it is questionable whether he has succeeded either in appropriately using or developing the insights of Goldscheid and Schumpeter. (See the review by Bob Jessop in American Political Science Review, 93(1), March 1999: 240-1).

<sup>24</sup> Chaudhry (1989 and 1997) is a significant exception.

states needs some interpretation and adaptation. I adapt it here by combining it with some other major sources of ideas and inspiration, including:

- Other historical work, overlapping with Tilly's, that deals with the ways in which the emergence of representative government in Western Europe in the seventeenth century was based on perceptions of mutual interest between controllers of state (monarchies) and larger taxpayers, especially merchants and others whose assets were mobile.<sup>25</sup>
- Observations - from insightful colleagues, my personal experience and the literature - on ways in which contemporary foreign aid can undermine the policymaking capacity and institutional coherence of central governments and the authority of legislatures over public budgeting. Deborah Brautigam (1991; 1996; and 1999) has been especially influential in this regard.
- A recent upsurge of interest in the politics of the taxation relationship among comparative political scientists working in poorer countries.<sup>26 27</sup>

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<sup>25</sup> For a summary of the Tilly argument, see Moore (1998: 95-6). This broader argument is formalised by Bates and Lien (1985).

<sup>26</sup> Levi (1988) is often cited as the pathbreaker. However, her central proposition - that states maximise revenue subject to constraints - is too tautologous for many tastes. Tilly's historical scholarship has probably been a more important inspiration. The capacity to raise taxes is increasingly used by political scientists as a key indicator of state capacity (Wang 1995). There is very interesting recent work on the variables that shape the capacity of poor states to tax (Cheibub 1998; Lieberman 2000). For details on on-going research on Southern Africa, see <http://www.cmi.no/research/tax.htm>.

<sup>27</sup> Other scholars working on similar or parallel issues - all in relation to Africa - also merit mention here. Jane Guyer (1992) raises the question of whether local government (in Nigeria) can be responsive and accountable with no local revenue base. Jean-Francois Medard explained to me how well early versions of the ideas presented here fitted his own conception of a significant categorical divide among African states, between the 'mineral-based' states where patrimonial, personal rule flourishes (e.g. Angola, Gabon, Nigeria, Sierra Leone, Zaire), and the 'agricultural' states, of which Cote d'Ivoire is the extreme case, where political authority has generally been more institutionalised. I recently discovered that Thandika Mkandawire has also developed a typology of African states around their revenue bases: 'the rentier state dependent on mineral rents (and aid) and the merchant state dependent on extraction of surplus through such activities as marketing boards (Mkandawire 1995: 24). There are some parallels between the arguments and approach of this paper and those developed recently by Richard Auty (1997 and 1998) relating to the political (and economic) consequences of 'natural resource dependence'. For reasons that cannot easily be explained here, I do not find his political economy modelling adequately nuanced or very convincing.

## 6. Earned and Unearned State Income

Let us begin from the spirit of the term 'rentier state' but use a more general set of terms: the notion of a continuum between 'earned' and 'unearned' state income.<sup>28</sup> Conceptually, the notion is clear: state income is earned to the extent that the state has to put in effort in working with citizens in order to get its money. That effort is of two broad kinds:

(i) Organisational effort: How large, elaborate, differentiated and efficient is the bureaucratic apparatus that the state deploys to collect its income? What proportion of citizens does the bureaucracy encounter (record, assess etc.) in collecting taxes? A state that has a number of distinct and effective services to assess and collect, for example, income, property, customs and turnover taxes from a wide range of citizens, is working much harder for its income than is a state that receives a large annual cash subvention from an oil-rich neighbour and collects the remainder through a flat rate import duty.

(ii) Political effort: How far does the state invest resources - money, competent public servants, the attentions of senior policymakers etc. - in protecting and increasing the taxpaying capacity of its citizens? The most rudimentary political authority - that can barely be called a state - will take what it can today, heedless of tomorrow. A 'minimal state' will provide the law, order, justice and security services that provide (some) citizens with the opportunity and incentive to improve their own material situation and, at the same time, their taxability. 'Welfare' and 'developmental' states provide these opportunities and incentives in a more active way.

Unearned state income derives from a few sources, requires little organisational and political effort to collect, and involves little interaction between the state (civilian) apparatus and the mass of citizens. It comes in many forms: deficit financing of public expenditure is one type that I do not deal with here. One could spend a long time trying to grade different state income sources by degree of earned-ness. Most

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<sup>28</sup> The terminology around 'rentier states' has mushroomed in a rather unhelpful way. Mahdavy is generally cited as the originator of the term 'rentier state'. He defined it in terms of dependence on external rents, but classified oil revenues as 'external' on grounds that are difficult to accept (Mahdavy 1970: 428). Later scholars have added alternative concepts, such as 'exoteric' (versus 'esoteric') states; 'allocation' (or 'distributive') versus 'production' states; and 'rentier' versus 'merchant' states (Beblawi and Luciani 1987: especially 1-21]. The concept of a continuum between earned and unearned state income goes the heart of the issue.

export taxes, for example, are probably less earned than most income, sales, turnover and property taxes. But these kinds of distinctions are insufficiently explored and too fine for my purposes.<sup>29</sup> I am focusing here on gross differences between states that live from earned income and those that depend to a large degree on the dominant sources of unearned state income found in poorer countries: mineral revenues, especially oil wells; and aid. A more complete account would look, for example, at revenues from such sources as timber, diamonds, narcotics and agricultural commodity exports (coffee, cotton, cocoa etc.). These have all been significant sources of (relatively) unearned income for many poorer states in recent decades. But the extent to which these revenues are appropriable and appropriated by states depends very much on specific institutional arrangements that change over time. State monopolies on agricultural commodity exports are now far less significant as sources of revenue for poor states than they were two decades ago. These kinds of non-oil commodity revenues are relatively contestable: peaceful citizens and/or armed bandits and insurgents can often claim a large share (Section 4). I focus here on the main categories of unearned revenues - oil and aid - that, for different reasons, most of the time reliably accrue to the people that hold state power.

Rather than beginning directly with the dysfunctional consequences of dependence on oil and aid revenues, let us look at familiar, developed, states from an unfamiliar angle. What are the implications of the fact that they live from, and were largely constructed on the basis of, earned income?<sup>30</sup> Living from earned income has the following consequences:

- (i) States have an incentive to recruit a capable and relatively honest public service, with internal financial and personnel controls, so that liability for tax can be assessed

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<sup>29</sup> They give rise to some interesting hypotheses. For example, Singapore levies scarcely any taxes. Most public revenue is 'non-tax', coming from charges on the development and management of public infrastructure and services: port facilities, public transport, property development, and public utilities. The arguments developed in the main text would indicate that the Singapore state apparatus should score highly in terms of the statist values of competence and authority, but low in terms of the liberal values of accountability and responsiveness to citizens. That indeed appears to be the case.

<sup>30</sup> As is evident from Tilly's work in particular, state income that derives from war with other states would count as earned income within our framework. Such income was significant for European states only occasionally: they financed their wars mainly from internal sources. Access to credit from overseas was heavily dependent on the prospect of repayment offered by a good a domestic tax base (Weiss and Hobson 1995: 47).

and revenues actually collected and handed over to the treasury. Because many taxpayers have to be contacted, the tax collection bureaucracy has to be substantial in size and dispersed around the country.<sup>31</sup>

(ii) States control their own public servants, because they recruit and pay them.

(iii) Because the livelihoods of many citizens are taxed, public bureaucracies record a great deal of information about individual citizens; and individual public servants come regularly into contact with citizens. A taxation system is simultaneously a governance intelligence mechanism. It comprises two main elements: (a) sets of information on citizens - names, addresses, occupations, incomes, business turnover, wealth - that states might not otherwise collect and maintain; and (b) a network of public tax collection agents who use this information, collect a great deal more in an informal way, become repositories of knowledge about what is going on in the far-flung parts of polities where state elites may have little direct knowledge or influence.

(iv) Because the material prosperity of citizens increases their taxability, there are large areas of public policy within which states and citizens have common interests.

(v) There is scope for the emergence of representative government because (a) of these common interests between state and citizens (in the use of tax revenues to promote prosperity); (b) the process of tax collection can be made easier or less costly for both parties if tax payers are consulted about modes and levels of taxation; and (c) the fact of paying direct taxes is likely to motivate the payers to take an interest in how 'their' money is used:

“Historically, states have become beholden to their citizens through reciprocal obligation. Impersonal, formal, arbitrary state extraction - taxes and conscription for example - was the first sign of government as penetration and control in the early modern nation state. It was soon followed by demands, particularly among property holders, for protection against such arbitrary exactions and for a role in deciding how state income was spent. These development we now think of as the expansion of individual rights, democratic participation and class politics. In extractive states, wealth translates into the capacity to pay taxes to, and demand

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<sup>31</sup> Brewer's (1989) work on the revenues of the English state in the eighteenth century has helped correct a widely-held misconception that the state was strong and effective in the absence of a dedicated state apparatus - and reliant largely on the part-time, voluntary administrative activities of the propertied classes. The Customs and Excise service was an impressive bureaucracy, and 'the sinews of power'. See also Weiss and Hobson (1995: 42-8).

concessions from, the government - that is, into political power” (Anderson 1994: 440).

(vi) Temptations to take over state power by force - especially through an internal coup - will be tempered by the knowledge that the state’s income stream can only be kept flowing if the new regime either has the capacity to manage a complex revenue assessment and collection mechanism (possibly including an element of representation) or is able effectively to deploy more coercive power to collect taxes.

This image of the politics of a state dependent on earned income is necessarily idealised: we are dealing only with the fiscal dimensions of states, and that in an abstract way. That abstraction does however point clearly to some of the implications of the obverse situation: dependence on unearned income. There are many variants of that case. It is sufficient if we deal with our two main types: oil and aid states. Oil first. What happens when the government of a country is substantially or entirely dependent on oil (or other concentrated minerals) for its revenues? Leaving aside the historical specificities of each case,<sup>32</sup> the general logic that emerges from the various sources cited above suggests seven distinct pressures toward political underdevelopment:

(i) Autonomy from citizens. The state apparatus, and the people who control it, have a ‘guaranteed’ source of income that makes them independent of their citizens (‘subjects’?). Why listen to citizens? Or give them any kind of democratic influence over the state? Or use scarce administrative resources to promote broad economic development when the state can feed itself from mineral revenues - or from using those revenues to establish ‘mega-projects’ under state control? It is more efficient to use some revenue to buy off those citizens likely to cause trouble, and more of it to support a powerful army and intelligence apparatus that will keep the others in line.

(ii) Coup-ism and counter-coup-ism. It is very tempting for those not at the very centre of power to try to take over the state by force: the rewards of obtaining access

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<sup>32</sup> Or region. For example, Anderson (1995) argues that the distinctive features of Middle Eastern politics lie not only in the effects and spillovers of oil wealth. In addition, much of the region was colonised relatively late by European powers, and ruled by regimes that, subsidised from Europe, developed ‘welfare’ systems that required no reciprocal taxes. (In addition, between 1950 and 1980, and in addition to oil wealth, the Middle East received more foreign aid per head than any other region in the world.)

to an oil well are potentially very high. The incentives to coup are high, and foreign support can often be obtained, especially in the context of geo-political rivalry over access to oil supplies. Politics in mineral states tends to coup-ism. The state responds by using a great deal of its resources to protect against coups, often bringing in foreign mercenaries who are less likely to lead a coup. Those in power are reluctant to cede any influence to other groups, lest this become a foothold for a complete takeover of the state.

(iii) Ineffective civil service. There is little incentive to establish an efficient civil service. The task of raising revenue from the mineral facilities requires few specialists, and these may be imported to make them more easily controllable. It is not necessary to establish the kind of efficient meritocratic civil service that is required to manage a complex tax system, or to establish the control mechanisms and public service values needed to protect against the worst abuses in tax collection. In the civil bureaucracy, jobs will be given mainly for patronage purposes, and for directly political reasons. Insofar as there are incentives to create an efficient public bureaucracy, these will be concentrated on the military and intelligence apparatuses. And it is to these apparatuses that able and ambitious young people are attracted.

(iv) Vulnerability to subversion. The failure to tax the bulk of the population - and thereby bring them into the ambit of a regular civilian bureaucracy - leaves the state vulnerable to the (armed) organisational challenge of competitors - guerrillas, private armies based on the narcotics and arms trades, and non-state movements of various kinds, including, in contemporary Sub-Saharan Africa, autonomous Christian and Islamic movements. The key insight, shared inter alia by counter-insurgency specialists, is that active revenue raising may be an important means of keeping the state machinery alive and active at the grassroots. If the revenue raising function is permitted to decay, weak states leave themselves vulnerable to more committed and organised predators:

"In the course of an internal war, economic assistance tends to become an alternative source of revenue for the local regime, allowing it to neglect its domestic tax base and thus leave it to the insurgents to exploit. This is not to suggest that regimes facing an internal war ought to tax their populations more heavily, but it is to say that, in order to tax the countryside and the urban sectors, they have to rule those sectors. If they rule them, the insurgents do not" (Odon 1992: 219).

(v) Non-transparency in public expenditure. Where public revenues come from a small number of concentrated sources, such as a few foreign oil companies or a public mining enterprise, it is relatively easy for revenue and expenditure to be hidden from view. If a legislature exists, it has limited capacity to exercise oversight over the state because it has very incomplete knowledge of - let alone control over - the myriad ways in which state and quasi-state agencies raise and spend money. The official 'budget' may represent a mere shadow of the true fiscal situation. In Suharto's Indonesia the state oil company, Pertamina, was a fiscal and political state within a state (Winters 1996: 162-3). Much the same is said of other state oil companies elsewhere. 'Mineral states' appear to appropriate an unusually low proportion of national income, but this may be because the flow of resources to the state (or to state elites) is understated in the accounts (Cheibub 1998: 359-69).<sup>33</sup>

(vi) Absence of incentives for civic politics. Dependence on oil revenues affects the general tenor of civilian politics, and reduces, through two very different mechanisms, the likelihood that citizens will engage in politics in a 'civic' (deliberative, institutionalised, compromise-prone) fashion. First, the absence of direct taxes reduces the likelihood that citizens will be motivated to engage in politics through a sense of a right to influence of the use of 'their' own money.<sup>34</sup> Second, the absence of political contestation over the raising of state revenue through taxation increases the space for conflict over more fundamental issues of morality and values, that are more likely to generate permanent differences and ill-feeling among people, and are less subject to compromise than are questions of who pay how much tax for what purpose.<sup>35</sup>

(vii) Vulnerability States dependent on a small number of income providers are vulnerable to the sudden disruption of those sources. When oil revenues shrink

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<sup>33</sup> Ascher (1999: especially 16-17) makes the general case, with evidence, that revenues from natural resources tend to be dispersed, wasted and hidden in government accounts.

<sup>34</sup> We do not know how strong this effect is likely to be. It was reported to have appeared in Indonesia after the broadening of the tax base in 1984 (Winters 1996: 161).

<sup>35</sup> See, for example, Anderson (1994).

drastically, states that have little capacity in place to raise alternative revenues through taxing their citizens have several options: even more direct dependence on some alternative foreign source; a drastic shrinkage of the state apparatus itself, with all the resultant risks of political unrest; or the imposition of coercive taxation without the time to negotiate, establish data bases and procedures, or otherwise make taxation acceptable. None of those options are in general conducive to political stability or to any kind of state-citizen accountability. The more elaborate the existing taxation infrastructure - with officers, understood procedures, current information on the names, addresses, occupations, incomes, business turnover, wealth etc. of potential taxpayers - the more likely is it that a state can substitute in a non-coercive fashion for sudden shortfalls in major income sources.

The implications of dependence on unearned aid revenues are less easy to summarise than the oil cases. The aid situations appear more complex and diverse, for three reasons:

(i) First, state financial dependence on aid typically is less extreme than dependence on oil. It is rare to find the aid equivalents of Libya and some of the Gulf states, where oil accounts for virtually all state income.<sup>36</sup> My best estimate, for the early 1990s, for the countries classified by the World Bank as 'low income', was that aid typically amounted to almost half of state income.<sup>37</sup> The range is wide.

(ii) Second, some of the malign political consequences of aid stem as much from the large number of (competing) aid donors as from the overall aid volume (see below). Here again there is diversity, although, unfortunately, most heavily-aided countries enjoy the attentions of a large number of separate official donor agencies.

(iii) Third, aid dependence is fundamentally unlike oil dependence in that (most) aid donors have a mission to influence the governance of the recipient. 'On the issue of governance, oil itself is silent. Aid donors would like to think they make music, but rarely achieve more than noise.'<sup>38</sup>

With those provisos, we can make four general points about the implications of aid dependence for political development:

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<sup>36</sup> Rwanda has in recent years been aid dependent to much the same magnitude.

<sup>37</sup> These estimates are very approximate, as one of the symptoms of political underdevelopment is lack of (reliable) public finance data (Moore 1998: 110-19).

<sup>38</sup> I am indebted to a participant in a World Bank seminar for this metaphor.

(i) First, aid dependence does not create strong or consistent temptations for military coups: unlike an oil well, foreign aid might well dry up in response to a successful coup.<sup>39</sup>

(ii) Second, there is a great degree of variation in the vulnerability of aid dependent states to a sudden cessation of assistance. We have on one extreme Somalia, that was in successive short periods dependent first on Soviet and then on American aid, in a Cold War context. When the Cold War ended and American support was withdrawn, the state imploded in a spectacular fashion. These days, most aid dependent states have many donors (see below) and are less vulnerable to the consequences of changing relations with and among those donors.

(iii) Third, the malign effects of the state not needing to tax its citizens operate here as in the oil case: weak incentives to create an effective public service based on a revenue collection service (except a small, specialist group able to interact effectively with aid and development agencies); the vulnerability of an untaxed, unrecorded citizenry to subversive movements; and the weak self-interest of the state in the welfare of citizens.<sup>40</sup>

(iv) Fourth, high aid dependence often tends to undermine states and create a kind of political underdevelopment through jointly (a) removing much public expenditure from whatever legislative, expert or public scrutiny might otherwise be possible; and (b) reducing the de facto scope for governments to control the (senior) public service, in favour of a bidding war with competing aid donors. Since this last set of points are familiar only to people involved in a practical way in the aid business, it is worth summarising the mechanisms involved.<sup>41</sup>

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<sup>39</sup> The truth of this point is dependent on the broader geo-political context. I am referring here to the post-Cold War world as we have so far experienced it.

<sup>40</sup> The cynics might suggest that aid dependent states have a positive interest in the poverty of their citizens, as a means of securing continuing aid inflows.

<sup>41</sup> It is important to bear in mind that many of the pathologies of aid to contemporary poor countries stem not from the volume of aid (alone), but from the existence of a large number of donor agencies. These agencies compete among themselves for activities to fund and for the services of the best local public servants. At the same time, they are individually too small to take any overall responsibility for the effectiveness of their aid. Procedures and principles matter much more than outcomes. A very different, and much more encouraging, example is provided by American aid to Taiwan in the 1950s. US aid personnel were highly intrusive. But they shared with the government of Taiwan a sense of urgency about improving

Aid is now given largely in the form of grants or very concessional loans. Bilateral donors in particular mainly give grants. In consequence, the individual donor agencies tend to have a strong voice in how 'their' money is used. Further, large numbers of official aid donors give support to, and maintain offices in, individual recipient countries. It is not unusual for recipient governments to have to deal with a dozen significant official aid donors.<sup>42</sup> These numerous aid donors each have their own agendas, priorities, targets and procedures. Contrary to some concerns about the dominance of the 'Washington consensus' among aid donors, donors collectively do not target their assistance closely toward countries that adopt 'Washington consensus' policies (Burnside and Dollar 1997). Aid agencies remain individualistic, largely because they are ultimately responsible to legislatures back home that have little knowledge of, or concern with, the indirect impact of their aid programmes. To a large degree, aid agencies within individual recipient countries are competitors for the local resources that will help validate their activities: good projects to fund; the assistance of influential politicians and bureaucrats in expediting their programmes; and the secondment of the best local public servants to manage their projects (Wilson 1993).

People with a conventional view of the potential 'dependency' problems of aid recipients tend to welcome the individualism and competitiveness of aid agencies as a safeguard against collective 'aid imperialism' on the part of donors. In fact, these patterns of donor behaviour directly perpetuate the weakness of the recipient states, and undermine the prospects for effective state accountability. For 'sovereignty', in the form of centralised information about, and control over, public expenditure has been lost. Such sovereignty would anyway tend to weaken in the face of a multiplicity of competitive aid donors funding a significant proportion of public expenditure on a grant basis. It has weakened even further in many poor states because of the way in which government budgeting procedures have evolved in the face of growing aid dependence. Let us tell the typical story in summary terms, starting in the 1960s, a period of recent independence and relative economic prosperity for most African countries – for many of the countries to which this story applies are African.

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economic performance in the face of the pressing military and political threats from Beijing. The programme was a success (Jacoby 1966).

<sup>42</sup> And with an equal number of small scale official donors and dozens of international non-government organisations with individual programmes in country that impinge of government in some way or another.

In the early years of independence, governments typically practised a dual budget system.<sup>43</sup> The local (i.e. recipient) government financed the recurrent budget from local revenues. It made a 'local contribution' to the capital (or investment) budget, which was funded largely by aid donors, with the recent colonial power typically playing a significant role. The capital budget was prepared within the framework of a national development plan. The 1970s and after were marked by economic and fiscal crisis, increased aid inflows and growth in the number of (official) aid donors. Major changes in budgeting practices resulted. With recipient governments unable to meet 'local contributions', aid projects became 100% donor-funded. They began to be omitted from the formal government budgeting process because they did not require public funds. As public sector salaries declined, donors increasingly, through a range of 'allowances', paid the salaries of the government staff formally seconded to their projects, or working in closely related activities. Donor influence over the deployment of local public servants followed inevitably. As locally-generated revenue for recurrent expenditures declined further, donors began informally to assume wider financing responsibilities in sectors that appeared high priority to them, such as health.<sup>44</sup> Aid 'projects' began to fund a mix of investment, rehabilitation and recurrent activities. Local public funds were concentrated on urgent local priorities, that often included the military. On the one hand the donors, locked into situations where they cannot permit their projects openly to fail, appear to be behaving in a more intrusive fashion. On the other hand, their aid is to a large degree fungible: knowing that donors are committed to keeping health and education services on their feet, recipient governments can concentrate their limited funds on the military and other activities that they regard as priority. And the fact that the budgeting process no longer has much substance makes this easier. It has become increasingly difficult for anyone to know what money is being spent on what by government, or by aid donors in the name of government. There is little accountability of any kind.

These problems have long been discussed in development aid circles, although the implications for democracy and accountability appear not to have been much considered. The currently fashionable attempt to remedy the situation is the Sectoral Investment Programme (SIP), in which a number of donors agree to pool their funds

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<sup>43</sup> I owe this paragraph almost entirely to Mike Stevens. See also Cohen (1992) and Wilson (1993). The issues are discussed briefly in the 1997 World Development Report: 84-5 (World Bank 1997).

<sup>44</sup> "For example, vehicles provided for the project became vehicles for the ministry; drugs for a particular programme get used all over the country, etc." (Mike Stevens, personal communication).

to support sector-wide activities (e.g. in agriculture or health) in return for commitments from the recipient government about policy toward the sector in the medium term (World Bank 1997). This is a step in the right direction, although ideally aid funds should be pooled at national rather than sectoral level. These are however tentative experiments, which have not yet had any significant impact on the fragmenting effects on state authority of the competitive individualism of the aid donor community.

## **7. What Can Be Done?**

The most novel part of this paper concerns the malign effects of unearned state income. The arguments are based on insights from case studies. Are they true? It is only very recently that solid supportive evidence has begun to emerge, in the form of the results of cross-national statistical analysis. Both Michael Ross (2001 forthcoming) and Leonard Wantchekon (2000) using large samples of countries, have recently found strong negative associations between oil/mineral dependence (defined as the ratio of oil/mineral exports to total exports) and (a) democracy (both cases) and (b) observance of the rule of law (Wantchekon). Steven Knack (forthcoming) has found, over a time scale of two decades, that countries that receive higher levels of aid tend to suffer some deterioration in the measured quality of government institutions. Moore et. al. (1999) found that national political economies dependent on mineral exports tended to be less efficient than other states at converting national income into improved health and education for the mass of their citizens.

We need more research to further test and refine the theories. All that has been demonstrated so far is some aggregate connection between oil/aid dependence and poor governance. Our understanding of the role of the various possible linking mechanisms remains largely intuitive and inferential. It is based on insights derived from historical and contemporary case studies. We need more rigorous enquiry. Further, I have concentrated here on the implications of relatively straightforward oil and aid dependence, to the neglect of more ambiguous cases. For example, royalties from oil transshipment pipelines are significant for a few countries, and appear to have political implications similar to those of oil wells (Ellis 1996: 20). Empirically more important are situations where non-oil commodity exports (timber, diamonds, coffee, cocoa, cotton, etc.) potentially provide the opportunity for large scale rent-taking by state elites, or challengers. As pointed out in Section 6, in these cases the rents may either (a) never be cumulated and centralised by political actors, but remain in the

hands of the original producers or (b) may be appropriated through the use of force by non-state actors. The outcomes, in terms of both the degree to which potential rents are cumulated and the identity of the rent-takers, are very contingent.<sup>45</sup>

There is however enough evidence about the malign political consequences of oil and aid dependence to merit a serious exploration of the policy implications, especially the implications for aid and development agencies trying to promote good government. Three main inferences may be drawn:

- Poor countries need to tax themselves more. There is no convincing evidence that, on a country by country basis, increases in aid levels actually reduce the effective tax effort. However, it is clear that in aggregate governments of poor countries reap an unusually low proportion of GNP in the form of taxes. Aid donors can do a great deal to encourage recipients to take revenue raising more seriously. Provided revenue raising is not conducted coercively, more state dependence on internal tax payers should gradually improve the quality of governance in many poor countries. (It would also provide more resources for governments to tackle poverty and deprivation.)
- Aid donors can do more to ensure that recipient governments obey their own laws, audit all their own agencies regularly and effectively, ensure that these audits are publicised and that problems are followed up. For too long aid donors have been complicit in encouraging recipient regimes to break their own laws, and have thereby reduced the accountability of governments to their own legislatures and citizens. <sup>46</sup>
- The malign effects of many international transactions and relationship on the quality of governance in poor countries can be countered by more effective international policing of international transactions: better control of the trade in weapons, 'blood diamonds', tropical hardwoods and other commodities from 'tainted' sources; better regulation and more transparency in relation to offshore bank accounts; a reduction in the massive profits to be made from smuggling

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<sup>45</sup> The best analysis I have seen of the political and institutional dimensions of these contingencies is the work by Rosemary Thorp and Francisco Durand (1997) comparing relations between state and producers in the dominant export sectors in Colombia (coffee), Venezuela (oil) and Peru (mining, diversified).

<sup>46</sup> There is an awareness of this issue in many international aid and development agencies, and especially in the international financial institutions. There is a problem of ensuring collective action among aid donors, worsened by the fact that each donor tends to concentrate limited auditing resources on 'protecting' their own projects. The aggregate result can be very perverse: intensive and expensive auditing of a large number of separate aid projects, while non-aid expenditures escape any serious scrutiny.

narcotics into the rich countries; and some transparency, with the help of transnational corporations, about the revenues that governments are actually obtaining from the sale of oil and other commodities on international markets.

In sum, governments of rich countries would do more for the cause of improving governance in the poorest countries if they would resist the temptation to focus on institutional transfer for its own sake, and put more coordinated effort into creating the environmental conditions that will encourage the emergence of more productive state-society relations within poor countries.

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