

State Capacity is Sleight of Hand

Suppose I proposed the following theory of economic development:

The root cause of economic development is social capacity. Highly-developed societies have immense social capacity, as evidenced by their countless achievements. Backwards societies lack social capacity, as evidenced by their countless problems.

You'd probably be unimpressed. At first glance, this is a circular theory that explains nothing: Why are things so good in X? Because X has great social capacity. How do we know X has great social capacity? Because things are so good in X!

On closer consideration, though, the social capacity theory is not utterly empty. It makes one grand empirical prediction: Good social outcomes correlate. Income, wealth, happiness, health, culture, entertainment, leisure, and safety will all go together. And in point of fact, this prediction is true: Good social outcomes *do* tend to go together. Saying, "Society X has good health because it has high social capacity" is comparable to, "Person A is good at learning math because he has a high IQ." In both cases, we legitimately use good general outcomes to predict good specific outcomes.

Still, using social capacity to explain the world seems deeply unsatisfying, for two main reasons:

First, informed observers are already well-aware that good outcomes correlate. A conceptual framework that predicts the standard findings is better than nothing, but it's hardly a triumph of the human intellect.

Second, once you understand the concept of social capacity, you can immediately articulate an obvious critique: "The question we really care about is not *whether* social capacity varies widely between countries, but *why!*"

Why bring this up? In recent years, many social scientists – including several of my colleagues – have fallen in love with the concept of "*state capacity*." GMU economic historians Noel Johnson and Mark Koyama provide a nice overview in *Explorations in Economic History*:

State capacity describes the ability of a state to collect taxes, enforce law and order, and provide public goods...

State capacity can be thought of as comprising two components. First, a high capacity state must be able to enforce its rules across the entirety of the territory it claims to rule (legal capacity). Second, it has to be able to garner enough tax revenues from the economy to implement its policies (fiscal capacity). State capacity then should be distinguished from either the size or the scope of the state. A state with a bloated and inefficient public sector may be comparatively ineffective at implementing policies and raising tax revenues. Furthermore, historians agree that the eighteenth century British state had high state capacity even though it played a very limited role in the economy. Similarly, state capacity requires a degree of political and legal centralization, but it should not be identified with political centralization per se. The rulers of feudal society in which many legal and fiscal choices were devolved to local lords indeed had low state capacity. But the concentration of political authority in the center may cause inefficiencies and thereby undermine state capacity...

This seems like a fine description of what state capacity researchers think they've discovered. But I reject Johnson and Koyama's approving tone. Read them closely. You can't measure "state capacity" by the size or scope of government; that's a no-no. If the public sector is "bloated and inefficient," that's not high state capacity either. Concentration of political authority is causing inefficiencies? Well, you just undermined state capacity in the process of trying to increase it! To my mind, this is scarcely better than saying, "Good government is good; bad government is bad."

Matters would be different, admittedly, if the state capacity literature showed that good government is *the* crucial ingredient required for success. But researchers rarely even try to show this. Instead, they look at various societies and say, "Look at how well-run the governments in successful countries are - and look at how poorly-run the governments in unsuccessful countries are." The casual causal insinuation is palpable.*

More careful researchers, to be fair, make the extra effort to try to explain the *origins* of state capacity. Johnson and Koyama name "state antiquity," "culture," and "civil society." But at this point, why not just ditch your premature focus on "state capacity" in favor of an open-minded exploration of *social* capacity? Good government *might* be the crucial ingredient for success. But maybe good government is a byproduct of wealth, trust,

intelligence, freedom, or some cocktail thereof. Or maybe there's a complex feedback loop. We can readily verify that all these good things tend to go together. Untangling that tangled causal web of success, in contrast, is a labor of Hercules.

If I'm right, why has "state capacity" become such a fashionable explanatory concept despite its pervasive conceptual weaknesses? Here's a short list of stories.

1. One simple theory of development gives overwhelming credit to government. But a theory this simple is open to devastating counter-examples like Stalinist Russia and Maoist China. "State capacity" has the same psychological appeal without this empirical vulnerability. Why not? Because while we can observe states, we can only infer their "capacity." Thus, anytime government leads to disaster, you can say, "Too bad they didn't have higher state *capacity*." Anytime government leads to good results, in contrast, you can say, "Hooray for state capacity!"
2. "State capacity" sounds a lot less tautological than "social capacity," even though the latter concept is much cleaner. "State capacity causes social success" sounds profound. "Social capacity causes social success" – not so much.
3. "State capacity" splits the ideological difference between libertarians and statisticians – and thereby appeals to a broad academic spectrum. State-sympathizers can emphasize the wonder of government. State-skeptics can emphasize the danger of badly-run government.
4. Don't forget sheer faddishness. Academia's full of it.

I freely admit that the state capacity literature has much to teach us. But that's largely despite its conceptual framework – not because of it. Readers must constantly guard against the intellectual sleight of hand that pervades this work. While good social outcomes all tend to go together, the state capacity literature fails to show that government is the crucial factor that makes all the others possible. Indeed, as far as I can tell, existing empirics are quite consistent with Sutton's Law that people rob banks because "that's where the money is." Perhaps rich societies have big governments because it takes a colossal host to sustain colossal parasitism. Think of San Francisco or New York City before you scoff!

* That's not a typo.