

# Political Settlements and Effective Policy Implementation

Mushtaq Khan  
Professor of Economics  
SOAS University of London  
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## History of a Concept

The analysis of political settlements (defined as a **distribution of organizational power**) addresses a number of specific theoretical challenges

- a) Why do the *same* formal policies/institutions including governance arrangements have different outcomes across contexts? ('context matters' everyone agrees, but precisely how?) and
- b) Why do *different* institutions and policies perform similar functions and achieve similar outcomes across contexts? (again, how does context matter?)
- c) How do we *design* policies that are likely to be effective in specific contexts?

The **analysis of power and informality** in PS analysis addressed early puzzles with industrial policy and the analysis of developmental states in the 1980s and of good governance as a policy framework in the 1990s

Now an increasingly rigorous framework (but with variations in definitions and methods) applied to many policy design issues: including by SOAS-ACE and RENT, ESID and African Cities (GDI Manchester), PolSet (Edinburgh) and many others

## What is a political settlement?

I define a political settlement as the *configuration of power and capabilities* in a society that can explain what policies **emerge**, but also how the extent to which they can be **implemented**

But what is power based on, how stable is it, and how does it affect policy?

From the perspective of institutions and policies, the relevant type of power is **holding power**: the power to hold out in negotiations and conflicts over resources

Holding power is partly based on **economic power** (control over assets, eg in Engerman & Sokoloff or Acemoglu, Johnson and Robinson)

But also on **organizational power** (the power to mobilize and organize)

And **ideological power** (the ideas and values that support the commitment to accept the costs of conflict).

These configurations of power are *usually* relatively **stable** (though **evolving**) and also **different** across apparently similar developing countries

## Power and the enforcement of rules

If particular rules are against the interests of powerful organizations they can be expected to resist attempts to enforce them

How they do this depends on how strong the **'rule of law'** is

If there is a 'rule of law' and a rule is violated and detected, violators have the same probability of punishment regardless of how powerful that violator is

How and when does that happen? This is the same question as 'when does good governance emerge?' The political settlements framework gives a specific answer to these questions that we will return to

If the rule of law is strong, when the powerful disagree with a particular rule, they work to change it: Open rule violation is not an option

But in contexts where the **'rule of law'** is weak, resistance can often take the form of informal violations resulting in large elements of corruption and informality

## Political Settlements

Informal violations (if systematic) are themselves rules or institutions that reproduce the power of the organizations that benefit from these violations

The **‘political settlement’** describes a **distribution of power across organizations** that is relatively stable and *reproducible over time because formal and informal institutions have adapted to reproduce this distribution of power*

The distribution of power across organizations is **reproduced** if the formal and informal rules generate a distribution of benefits that reproduces the power of these organizations (a PS is therefore an equilibrium of rules, rents and power)

We can now see why a ‘rule of law’ and property rights are sustained in advanced countries: the most powerful organizations are productive capitalist firms that want and act to support formal rights and a rule of law

These ‘institutions’ (rule of law, capitalist property rights etc) allow capitalist organizations to be profitable, reproducing their power: and this distribution of power is the political settlement describing capitalism

## Political Settlements

In contrast, in developing countries, many powerful organizations are not competitive and do not want a rule of law to generate rents

These organizations are not globally competitive and a rule of law gives them lower returns relative to violating capitalist/free market rules

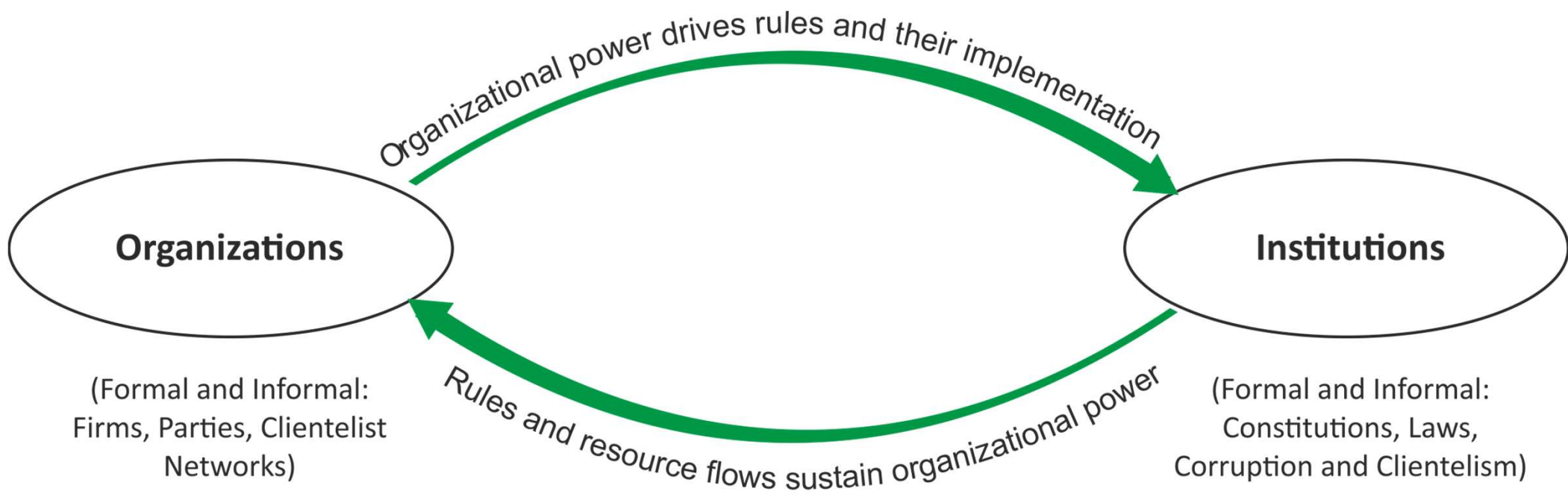
They prefer to collude to overprice contracts, to not repay bank loans, get preferential subsidies etc

Moreover, because powerful organizations are few in number, they can enforce contracts between themselves using **informal enforcement** and **trust**

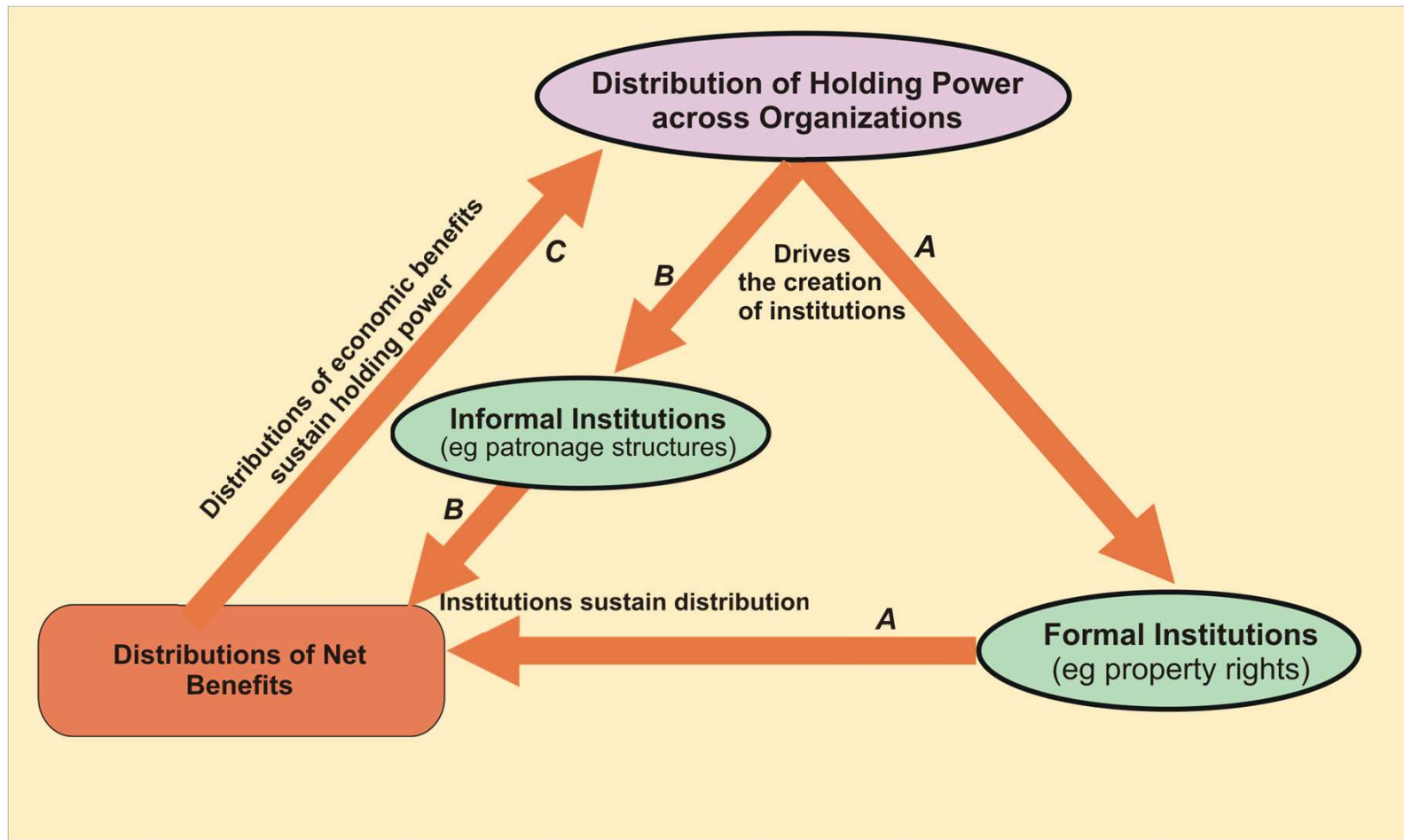
The capture of rents by these organizations reproduces the distributions of power, with informal institutions often playing a critical role

The political settlements of developing countries are therefore characterized by significant informality (including corruption, clientelism, violations of contracting and banking rules etc), but the details of who can violate can differ greatly *across* developing countries: We have **'rule BY law'** (rules are enforced but not equally on everyone) not **'rule OF law'**.

# Institutions, Organizations and Political Settlements



The distribution of organizational power is reproduced with formal and informal rents and this is why the 'political settlement' or distribution of power is reasonably robust (even if evolving)





## Applications to Policy Analysis: Step 1

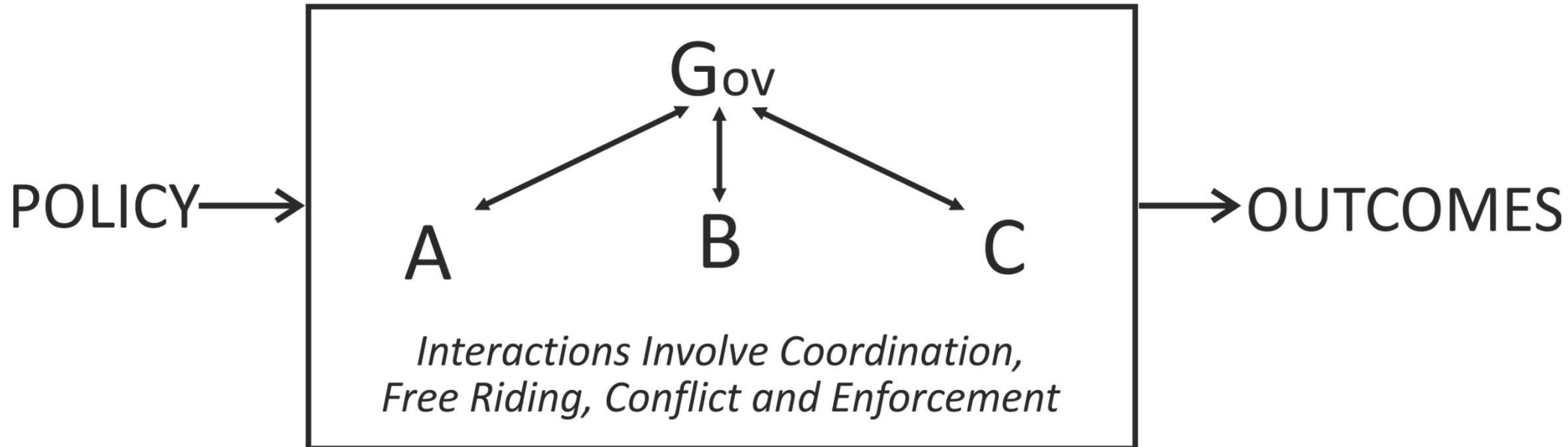


Policy aims to change organizational behaviour with regulations, taxes, subsidies, etc.

But expected outcomes often fail to materialize if policy fails to predict how organizations will respond by capturing policy rents or distorting the conditions of their allocation to reduce their own effort and/or to enhance returns in unproductive ways

Example: industrial policy using **industrial development banks, tariff protection, and export subsidies** provided 'policy rents' to companies to finance the acquisition of new technologies and enable learning by doing

Step 2: Governance theories recognize the problem of enforcement and look at how GOVERNANCE AGENCIES (Gov in the diagram below) work ORGANIZATIONS



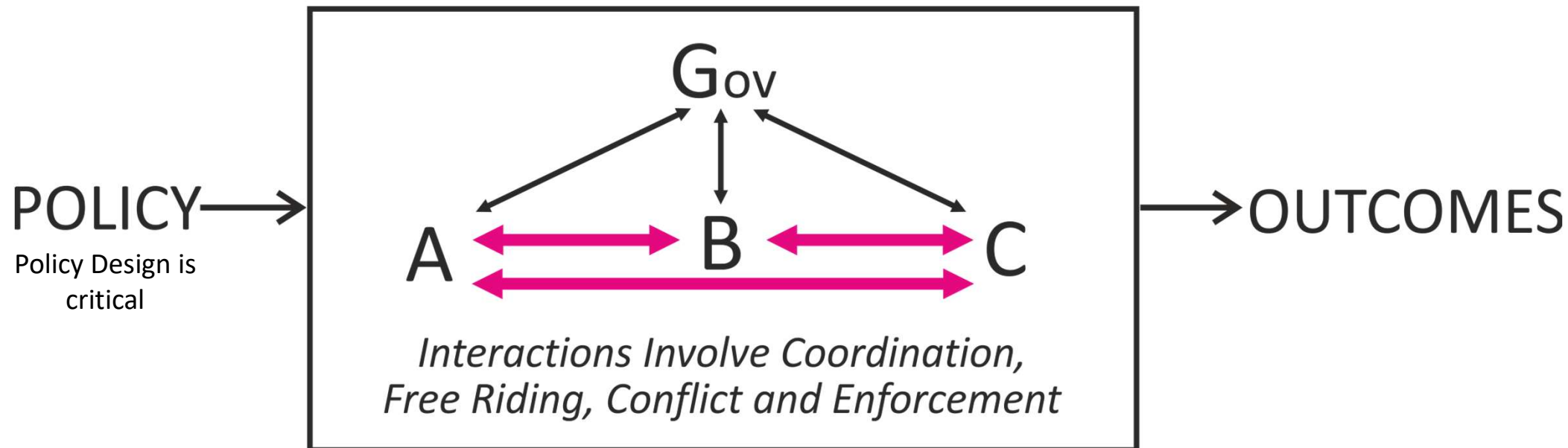
Developmental state theorists looked at state capabilities of enforcing discipline, the vision of the leadership, and whether governance was Weberian (impartial) in enforcing rules

Liberal theorists focused on the state's capacity to enforce 'good governance', the rule of law, anti-corruption, property rights, political stability

But improvements in these capabilities did not always lead to improvements in poor performers

Step 3 PS analysis: Looks at how the distribution of power and capabilities across organizations matters

## ORGANIZATIONS



The **relative power of the players and their 'horizontal' activity to enforce or subvert rules** can determine how well which rules can be enforced, **given the power of governance agencies**

Policy **design** matters because it determines which organizations get rents and on what terms

This helps explain why industrial policy with *ex ante* rents worked in S Korea but **not** in S Asia

And why very **different** industrial policies that reduced risks in learning processes using *ex post* rents worked much better in South Asia (Bangladeshi garments, Indian automobiles, pharma)

# Processes of change for political settlements

