

Lezione 10

Il principio di sussidiarietà e lo stato

H792 - 2020/21



Si pensa che lo Stato e il mercato sono in tensione, in realtà sono complementari

- Lo Stato è una burocrazia organizzata come il luogo dove si scambia il potere.
- Il mercato è il luogo dove si scambia la ricchezza, grazie alla libera concorrenza.
- Uno ha bisogno dell'altro per funzionare in modo efficiente, per questo le nazioni industrializzate hanno stati molto grandi. Qualcuno deve produrre i beni pubblici.
- Una azienda produce le macchine, ma solo se ci sono strade. Non esiste un mercato per creare strade, fognature, ecc.
- **Lo stato** dovrebbe comprendersi come un sussidio delle scelte dei cittadini e crescere accanto ad esse.
- Il mercato non può auto-regolarsi perché si genererebbe uno stato commerciale tirannico.
- Lo stesso Giovanni Paolo II ricordava così il ruolo dello Stato.

Zucchero e caffè, oppure caffè e tè...

- Il principio di sussidiarietà ha come scopo evitare “forme di accentramento, di burocratizzazione, di assistenzialismo, di presenza ingiustificata ed eccessiva dello Stato e dell’apparato pubblico: «Intervenendo direttamente e deresponsabilizzando la società, lo Stato assistenziale provoca la perdita di energie umane e l’aumento esagerato degli apparati pubblici, dominati da logiche burocratiche più che dalla preoccupazione di servire gli utenti, con enorme crescita delle spese» (CA 48).
- Il mancato o inadeguato riconoscimento dell’iniziativa privata, anche economica, e della sua funzione pubblica, nonché i monopoli, concorrono a mortificare il principio di sussidiarietà”. (CDSC 187). Le situazioni particolari di monopoli creano “remore o ostacoli per lo sviluppo” (CDSC 351) e sono un esempio di strutture contrarie al principio di sussidiarietà

Davvero ci vuole lo stato?

- Lo scambio economico più semplice: mercato immobiliare. Io ho un appartamento, tu vuoi un appartamento.
- Ma non ho informazione, allora cerco un agente immobiliare. Si crea il mercato immobiliare.
- Ma non ho tutti i soldi, allora cerco un mutuo e una agenzia di prestiti. Si crea il mercato finanziario.
- Ma non sono sicuro se l'appartamento vale quanto mi dici, così cerco un valutatore. Si crea il mercato dei consulenti immobiliari.
- Non so come fare un contratto di compravendita, e vado da un avvocato. Si crea il mercato degli avvocati commerciali.
- Chi può regolare tutto quanto? Chi accentra l'informazione?

Informazione



Informazione



Incentivi

Informazione



Incentivi



Mobilizzazione
di risorse



What is the State?

- It is a bureaucracy capable of:
 - imposing a monopoly of violence on a territory,
 - Imposes rules and administers justice
 - Provides infrastructure and services
 - It is able to tax and mobilize resources to accomplish this

The market as a self-organizing system: back to Adam Smith

- Prices provide information about costs of production and willingness to pay
- The profit motive provides an incentive structure for agents to respond to information
- Capital markets mobilize resources by targeting firms that are expected to be profitable
- The market evolves:
- **Entrepreneurship** represents a **source of variation...**
- ...and the **market, as a fitness function**, preferentially replicates the right hand tail of the distribution of firms and products
- A restatement of Hayek, Schumpeter

Producing with public and private inputs

- Production requires many elements, i.e. types of physical and human capital
- But also many types of elements or inputs provided by the government
- In principle, government inputs are complements of private inputs
 - Cars are complements of roads
 - Buildings are complements of urban development
 - Rich countries have larger governments than poor countries
- The returns to private inputs depends on the supply of public inputs
 - The value of an apartment in Central Park East, NY

What do people mean when they mention "Public Goods"?

- Inputs provided or funded by the State, that should enable private agents to:
 - Appropriate the returns on their investments
 - Engage in contracting and trade
 - Access the necessary inputs and markets for their products
- Roughly separated between:
 - Institutions: Rules of the game that affect the behavior of agents
 - Infrastructure: Publicly available physical assets
 - Services: Organizations / agencies performing specific activities

How is the provision of public inputs organized?

- No prices
 - Article 32 of Law X
 - Rules for obtaining permit Y
 - Traffic jams
- No profit motive
- No decentralized capital market
 - Resource allocation mechanism
- How does the government set its very large basket of public inputs?
 - Where does it get its information
 - Incentive to respond to the information
 - Resource mobilization to address the issue

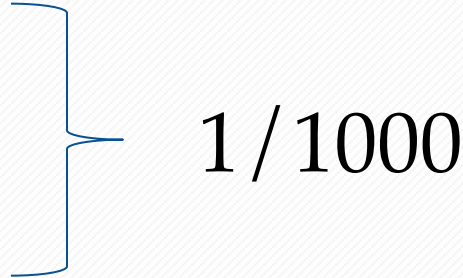
**Can politics be the feedback
loop or fitness function for
public inputs?**

Can politics be the fitness function?

- What do we need feedback on?
 - The actions of $\sim 10^3$ government agencies
 - The choice of $\sim 10^6$ pages of legislation
- How does politics scale as the list of public inputs becomes bigger?
- What does politics mean?
- Elections?
 - How many people are elected?
 - How frequently?
 - On how many issues is the election decided?
- In the market it is one product, one price
 - It is already problematic when firms have complex products with many attributes
- *Elections are one vote for many issues*
- How does politics scale as the set of public inputs becomes bigger?

**Let us look at the US
again**

How many people are elected?

- 1 President + Vice-President
 - 100 Senators
 - 435 Members of Congress
 - 50 State Governors
 - 50 Lieutenant Governors
 - $\sim 10^4$ state senators and congressmen
 - $\sim 10^4$ mayor of cities, towns and villages
 - $\sim 10^5$ aldermen and city councilors
 - $\sim 10^5$ members of school boards
 - Judges, attorney generals, noise abatement councilors, sheriffs, etc.
 - 500,000 overall elected positions
- 
- 1 / 1000

**Let us look only at the
Federal level**

The US Congress

- House of representatives
 - 435 members
 - Each Member of Congress has 25 staff members
 - 20 Committees
 - 106 Sub-committees
- Senate
 - 100 senators
 - Each senator has 40 staff members
 - 20 Committees
 - 76 Sub-committees
- 4 joint committees
- Total: 44 committees and 182 sub-committees
- 226 parallel conversations!

<u>Agriculture, Nutrition and Forestry (5)</u>	
	<u>Domestic and Foreign Marketing, Inspection, and Plant and Animal Health</u>
	<u>Energy, Science and Technology</u>
	<u>Hunger, Nutrition and Family Farms</u>
	<u>Production, Income Protection and Price Support</u>
	<u>Rural Revitalization, Conservation, Forestry and Credit</u>
<u>Appropriations (12)</u>	
	<u>Agriculture, Rural Development, Food and Drug Administration, and Related Agencies</u>
	<u>Commerce, Justice, Science, and Related Agencies</u>
	<u>Defense</u>
	<u>Energy and Water Development</u>
	<u>Financial Services and General Government</u>
	<u>Homeland Security</u>
	<u>Interior, Environment, and Related Agencies</u>
	<u>Labor, Health and Human Services, Education, and Related Agencies</u>
	<u>Legislative Branch</u>
	<u>Military Construction, Veterans Affairs, and Related Agencies</u>
	<u>State, Foreign Operations, and Related Programs</u>
	<u>Transportation, Housing and Urban Development, and Related Agencies</u>
<u>Armed Services (6)</u>	
	<u>Airland</u>
	<u>Emerging Threats and Capabilities</u>
	<u>Personnel</u>
	<u>Readiness and Management Support</u>
	<u>SeaPower</u>
	<u>Strategic Forces</u>
<u>Banking, Housing, and Urban Affairs (5)</u>	
	<u>Economic Policy</u>
	<u>Financial Institutions and Consumer Protection</u>
	<u>Housing, Transportation, and Community Development</u>
	<u>Securities, Insurance, and Investment</u>
	<u>Security and International Trade and Finance</u>
<u>Budget</u>	
<u>Commerce, Science and Transportation (7)</u>	
	<u>Aviation Operations, Safety, and Security</u>
	<u>Communications, Technology, and the Internet</u>
	<u>Competitiveness, Innovation, and Export Promotion</u>
	<u>Consumer Protection, Product Safety, and Insurance</u>
	<u>Oceans, Atmosphere, Fisheries, and Coast Guard</u>
	<u>Science and Space</u>
	<u>Surface Transportation and Merchant Marine Infrastructure, Safety, and Security</u>
<u>United States Senate Committee on Energy and Natural Resources (4)</u>	
	<u>Energy</u>
	<u>National Parks</u>
	<u>Public Lands and Forests</u>
	<u>Water and Power</u>

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	<u>Water and Power</u>
<u>Environment and Public Works (7)</u>	
	<u>Children's Health and Environmental Responsibility</u>
	<u>Clean Air and Nuclear Safety</u>
	<u>Green Jobs and the New Economy</u>
	<u>Oversight</u>
	<u>Superfund, Toxics and Environmental Health</u>
	<u>Transportation and Infrastructure</u>
	<u>Water and Wildlife</u>
<u>Finance (6)</u>	
	<u>Energy, Natural Resources, and Infrastructure</u>
	<u>Fiscal Responsibility and Economic Growth</u>
	<u>Health Care</u>
	<u>International Trade, Customs, and Global Competitiveness</u>
	<u>Social Security, Pensions, and Family Policy</u>
	<u>Taxation, IRS Oversight, and Long-Term Growth</u>
<u>Foreign Relations (7)</u>	
	<u>Western Hemisphere, Peace Corps and Narcotics Affairs</u>
	<u>Near Eastern and South and Central Asian Affairs</u>
	<u>African Affairs</u>
	<u>East Asian and Pacific Affairs</u>
	<u>International Operations and Organizations, Human Rights, Democracy and Global Women's Issues</u>
	<u>European Affairs</u>
	<u>International Development and Foreign Assistance, Economic Affairs, and International Environmental Protection</u>
<u>Health, Education, Labor, and Pensions (3)</u>	
	<u>Children and Families</u>
	<u>Employment and Workplace Safety</u>
	<u>Retirement and Aging</u>
<u>Homeland Security and Governmental Affairs (5)</u>	
	<u>Contracting Oversight (Ad Hoc)</u>
	<u>Disaster Recovery and Intergovernmental Affairs (Ad Hoc)</u>
	<u>Federal Financial Management, Government Information and International Security</u>
	<u>Investigations (Permanent)</u>
	<u>Oversight of Government Management, the Federal Workforce and the District of Columbia</u>
<u>Judiciary (6)</u>	
	<u>Administrative Oversight and the Courts</u>

But who do they talk to?

22,000+ registered lobby groups

PAC Name	Total Amount	Dem Pct	Repub Pct
<u>National Assn of Realtors</u>	\$3,791,296	55%	44%
<u>Honeywell International</u>	\$3,654,700	54%	45%
<u>National Beer Wholesalers Assn</u>	\$3,300,000	53%	47%
<u>AT&T Inc</u>	\$3,251,375	45%	55%
<u>Intl Brotherhood of Electrical Workers</u>	\$2,993,373	98%	2%
<u>American Bankers Assn</u>	\$2,870,154	32%	68%
<u>American Assn for Justice</u>	\$2,806,000	97%	3%
<u>Operating Engineers Union</u>	\$2,788,720	88%	11%
<u>National Auto Dealers Assn</u>	\$2,483,400	44%	55%
<u>International Assn of Fire Fighters</u>	\$2,368,500	82%	18%
<u>American Federation of Teachers</u>	\$2,361,250	99%	0%
<u>Credit Union National Assn</u>	\$2,334,846	57%	43%
<u>Teamsters Union</u>	\$2,328,900	97%	2%
<u>American Fedn of St/Cnty/Munic Employees</u>	\$2,316,000	99%	0%
<u>Carpenters & Joiners Union</u>	\$2,280,375	88%	12%
<u>Laborers Union</u>	\$2,236,000	96%	4%
<u>Boeing Co</u>	\$2,170,000	54%	46%
<u>National Education Assn</u>	\$2,150,300	95%	4%
<u>American Crystal Sugar</u>	\$2,142,500	68%	32%
<u>National Assn of Home Builders</u>	\$2,131,000	37%	63%

What are lobbyists about?

- Push legislation they like
- Stop legislation they dislike
 - Interaction effects
- Adversarial system helps reveal information
- Willingness to pay can be a reflection of a pure rent-seeking game a la Stigler, Kruger, et al
- ...but it may be about the returns to Gk's
- Competition limits pure rent-seeking
 - Others will not support you, if you need them, but...
- Rents may be required to overcome free-riding
- Very inferior to an omniscient social planner, but...
- It reveals information, addresses the incentive problem, creates a fitness function

What are lobbyists and what do they do?

- The mission of Good Government
 - “To effectively impact the development of legislation and regulation important to the mortgage lending industry, working for laws that protect consumers and keep mortgage capital available to them on fair and affordable terms, in ways consistent with responsible corporate citizenship and Good Government”
- What a good lobbyist should do?
 - · “Convinces politicians to vote on legislation by demonstrating that doing so is in the politicians' interest.
 - · Meets with legislators and provides information they would not otherwise have received.
 - · A good lobbyist educates legislators with support documentation (charts, graphs, polls, reports).
 - · Sits down with legislators and helps them draft legislation”

Scaling properties

- As issues change, different committees, sub-committees and departments
- ...and different lobby groups
- As issues are addressed, legislation gets drafted and organizations created
- As malfunctions occur, incentives to lobby increase
- The system has created a fitness function that can allow the system to maintain coherence
- Not perfect: it suffers from the same limitations of a market with imperfect competition
 - Abuse of dominant position, monopoly, etc.

Questions

- The US is just one case
- How does it work elsewhere?
- China? Singapore? Japan? South Korea? UK? Your country?
- What is the “bandwidth” of the system?
 - How many issues, conversations it can deal with?
- How does it respond to shocks?
 - E.g. the invention of cell phones which requires property rights on the spectrum
- How does it respond to malfunctions?
 - How does it find out? How does it mobilize to respond?

What is the State?

- It is a bureaucracy capable of:
 - imposing a monopoly of violence on a territory,
 - Imposes rules and administers justice
 - Provides infrastructure and services
 - It is able to tax and mobilize resources to accomplish this

Fukuyama's Political Institutions

- The State
 - State Capacity
- Rule of Law
 - Limits on the State
- Accountability
 - Democracy, voice and the definition of sovereignty

What do states do?

The acquis communautaire

The European Basic Law

What are its chapters?

- Free movement of goods
- Freedom of movement for workers
- Right of establishment and freedom to provide services
- Free movement of capital
- Public procurement
- Company law
- Intellectual property law
- Competition policy
- Financial services
- Information society and media
- Agriculture and rural development
- Food safety, veterinary and phytosanitary policy
- Fisheries
- Transport policy
- Energy
- Taxation
- Economic and monetary policy
- Statistics
- Social policy and employment
- Enterprise and industrial policy
- Trans-European networks
- Regional policy and coordination of structural instruments
- Judiciary and fundamental rights
- Justice, freedom and security
- Science and research
- Education and culture
- Environment
- Consumer and health protection
- Customs union
- External relations
- Foreign, security and defence policy
- Financial control
- Financial and budgetary provisions
- Institutions

The functions of US state Governments

Administrative Law

General Appeals and Hearings; Civil Service Appeals and Hearings; Tax Appeals and Hearings; Workers' Compensation Appeals and Hearings.

Audits, Inspectors General & Accountability

Boards & Professional Regulation

General Licensing; Architects, Landscape Architects & Interior Designers; Athletic Trainers, Occupational Therapy & Physical Therapy; Audiology, Speech & Language Pathology; Barbers & Cosmetology; Chiropractic; Construction & Contractors; Counselors, Therapists, Psychologists & Social Workers; Dental; Engineers & Land Surveyors; Geologists and Soil Scientists; Massage Therapy; Medical Examiners; Medicine; Nursing; Nursing Home & Assisted Living Administrators; Optometry; Pharmacy; Alcohol, Drug, & Gambling Counselors; Private Investigators; Real Estate Appraisers; Veterinary.

Business Regulation

General; Alcohol & Tobacco Regulation; Athletic & Boxing Commissions; Cemeteries; Land Use & Building Codes; Lotteries; Gaming & Racing Commissions; Real Estate.

Chambers of Commerce

Commerce and Economic Development

General; Consumer Protection and Education; Film & Television Promotion; Housing and Community Development; Improvement Districts; Industrial Development; Minority & Women's Businesses; Small Businesses.

Criminal Justice

General; Juvenile; Pardons, Parole & Probation; Sentencing; Sex Offenders Registry; Victims Advocate.

Data & Information

General; Geographical Information Systems; Health & Vital Statistics; Information

Education

General; Adult Education; Higher: General; Higher: Universities and Colleges; Libraries; Primary and Secondary: General; Primary and Secondary: Career & Technical Centers; Primary and Secondary: Early Childhood Centers; Primary and Secondary: Schools and Districts.

Environment

Agriculture, General; Agriculture, Product Promotion and Marketing Boards; General; Conservation & Protection, General; Coastal Protection; Fish, Game & Wildlife; Flood Control & Levees; Forestry; Land, Soil & Water; Parks and Recreation; Rivers; Energy; Minerals and Mining; Oil and Gas; Power Agencies & Authorities.

Ethics, Lobbying & Campaign Finance Commissions

Financial Administration

General & General Regulation; Banking; Budget Offices; Credit Unions; Fiscal Security; Insurance & Risk Management; Purchasing; Securities.

Financing Authorities

General; Educational Facilities; Health Facilities; Housing and Community Development; Student Loans & Tuition.

General Administration

Arts & Humanities; Arts & Humanities: Public Broadcasting; General; Public Buildings & Facilities; Secretary of State; Volunteering & Community Service; Elections; Municipal and County Administration; Governors & Lieutenant Governors

Health & Human Services

General; Public Health, General; Children and Families: General; Children and Families: Child Services, General; Children and Families: Family Services, General; Children and Families: Child Abuse Prevention; Children and Families: Child Advocate; Children and Families: Child Support; Deaf, Hard of Hearing & Blind; Developmental Disabilities; Mental & Behavioral

Historic Preservation

General; Archives & Records; Museums.

Homeland Security

International Trade

Judicial and Legal

General; Attorney General, Solicitor & District Attorneys; Civil & Human Rights; Courts, General; Public & Indigent Defense; Supreme Court.

Labor and Human Resources

General; Labor & Industrial Relations Boards; Occupational Safety & Industrial Accidents; Personnel, Human Resources & Jobs; Workforce Development & Improvement.

Legislative

Military

State Guards; National.

National Defense & Foreign Affairs

Public Safety

General; Corrections & Correctional Facilities; Emergency Management & 911; Fire Protection; Office of the Medical Examiner; Police, Sheriffs & Patrol Offices.

Research & Science

General; Geological Surveys; National & Federal Laboratories.

Social Services

Social Services

General; Health Care & Insurance Exchanges; Indian & Native American Affairs; Medicaid; Minority Affairs; Retirement; Social Security, Social Insurance Administration, Medicare; Unemployment Insurance & Employment Security; Veterans Affairs; Women's Affairs.

Tourism & Travel

General; Conventions & Fairs.

Transportation

General; Air Transportation, Aviation & Airports; Highways & Roads; Mass Transit; Motor Vehicles; Port Authorities.

Treasury & Revenue

General; Investments.

Utilities

Oversight and Adjudication; General; Sanitation; Waste Management.

Political Development: The Francis Fukuyama approach

- Three elements
- A capable state
- Rule of law (that applies especially to the State)
- Accountability

The elements of State capacity

- The monopoly of violence
 - Monopoly of Violence -> Peace and stability -> Investment -> Development
- The capacity to tax and spend
 - Taxes and Spending -> Public goods -> Higher returns -> Development
- The administration of justice
 - Justice -> Contracting -> Trade -> Specialization -> Development
- The State and Development across disciplines:
 - Economists: Too much State leads to underdevelopment.
 - Political Scientists: Lack of State capacity leads to underdevelopment.

Quis custodiet ipsos custodes?

- Agency problems: The main challenge about State capacity
 - How to prevent the misuse of the monopoly of violence?
 - How to prevent the patrimonialization of public goods?
 - How to prevent judicial bias in favor of powerful groups?
- If there is no answer:
 - Conflicting elites may not agree on developing the State.
 - But without a developed State, societies can hardly develop.
 - Especially, without a developed State, societies cannot prevent plunder.
- Possible Solutions
 - Eunuchs in China, Mamluks in Egypt, Webberian bureaucracy

Taxability of economic activity

- Mancur Olson's theory of the State as the Stationary Bandit.
 - Taxability makes a bandit prefer to ensure order and enable production.
 - Without taxability, bandit prefers to plunder and move on.
- Sanchez de la Sierra (2017): Proto-states in Coltan mines in the DRC did not appear in Gold mines (Coltan is taxable, gold is concealable)

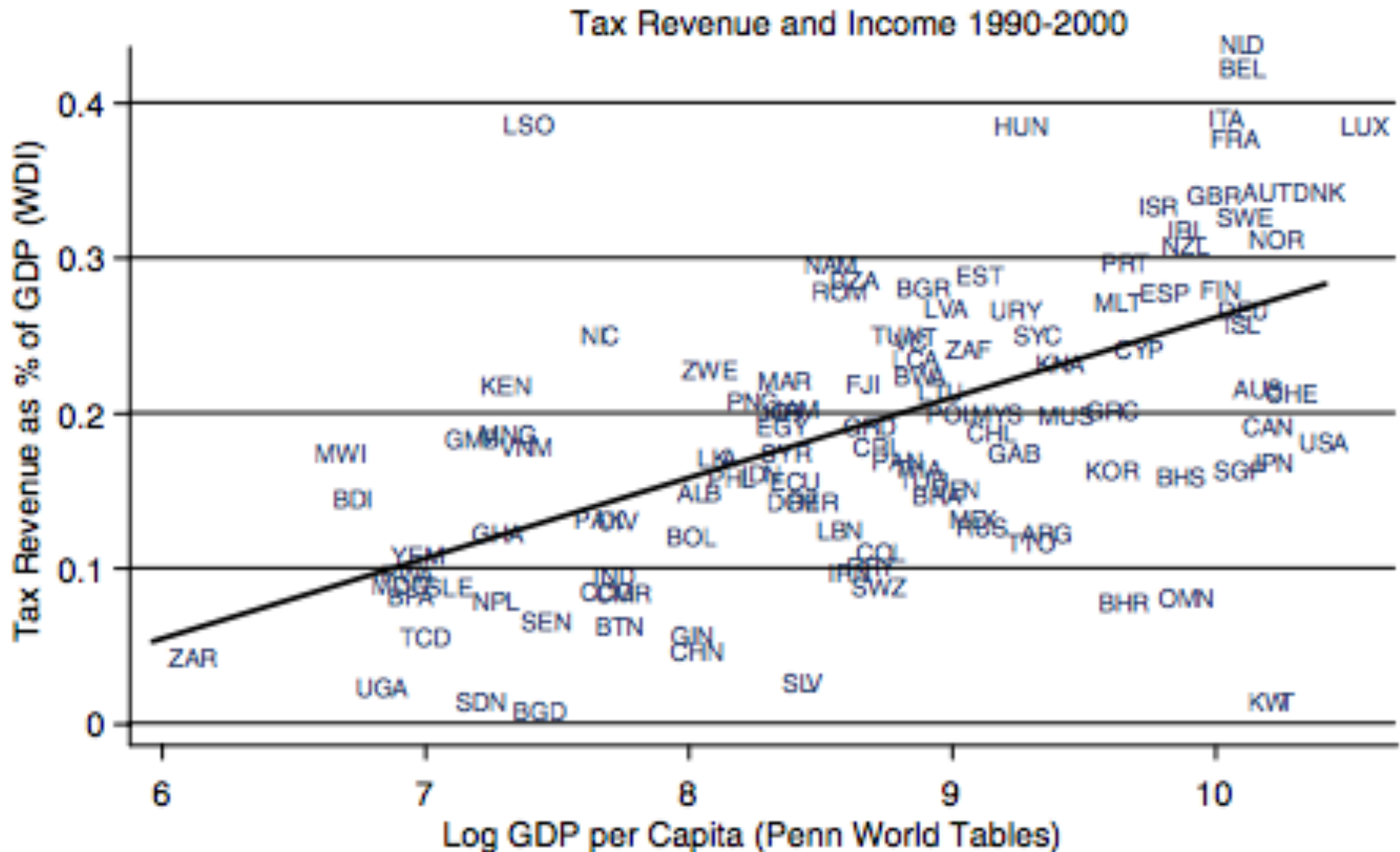
“War made the State, the State made war”

- Charles Tilly: The threat of war as a determinant of the Nation-State
 - Need to organize capacity to tax, spend and fight -> Military and Bureaucracy
 - Europe: East of Elbe vs. Principalities vs. France and England
 - Balance between wealth and land led to the victory (and spread) of the Nation-State
 - Dynamic was triggered by costs of “Military Revolution” (Gennaoli and Voth)
 - Inclusiveness or institutions enabled tax/spend capacity (Besley and Persson)

The balance between Society and the State

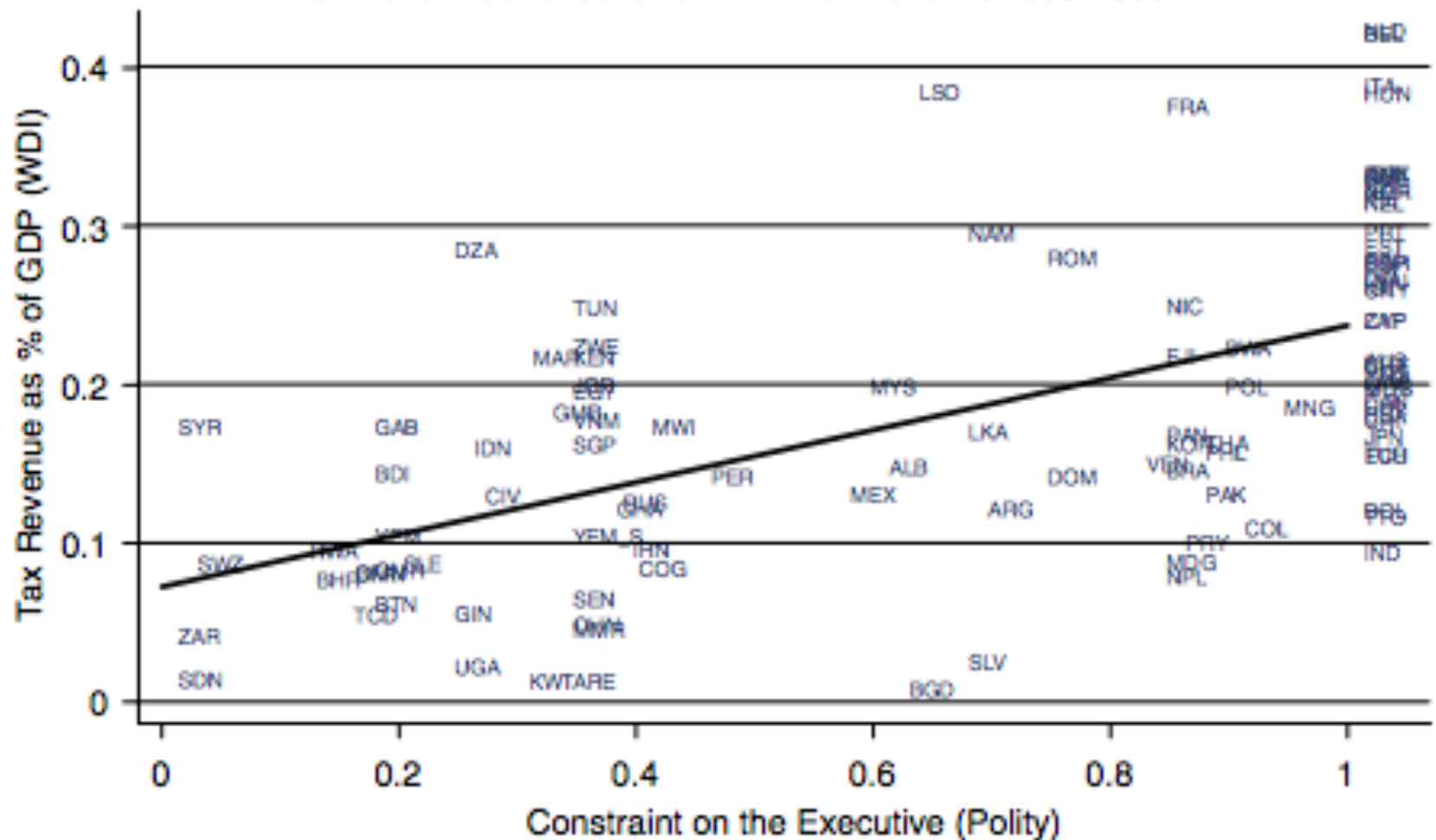
- Truly strong States are usually observed with a truly strong society
- Acemoglu and Robinson: "Consensually-Strong States"
 - Game of Society vs State: State to concede prerogative of removing government from office to Society in the event of State misbehavior.

Tax revenue and income



Tax revenue and constraint on the Executive

Tax Revenue and Constraint on the Executive 1990-2000



Ways to fail in developing State Capacity?

- No balance between society and the State
 - Too much Society (Andrew Jackson effect)
 - Too much State with no rule of law (Communism)
- Balance without accountability
 - Might bring growth, but does it bring a just/inclusive society?
 - Lack of inclusiveness or institutions may undermine growth in state capacity.
 - Singapore? Saudi Arabia?
- How would you characterize your country?

The Origins of the Rule of Law

- Attributed to several former Latin American presidents
 - "For my friends, everything. For my enemies, the law"
- The role of religious authority
 - Old testament
 - Christian Church and the Vatican
 - Montesquieu
- Alternatives?

Theories about Institutions and Development

- Marx: Production determines social superstructures
 - Economics -> Political and social arrangements
 - Engerman and Sokoloff:
 - Suitable crops -> Production arrangements -> Differences in institutions
 - Alesina, Giuliano and Nunn:
 - Suitable crops -> Use of the plough in agriculture -> Differences in gender roles
- North: Institutions -> Incentives -> Economic Activity
 - Acemoglu Johnson and Robinson
 - Settler Mortality -> Differences in institutions -> Differences in development
 - Shleifer's response: Mortality -> No migration -> No flow of knowhow

Accountability, State Legitimacy and Taxation

- Saudi's sovereign is the King. By his grace, no taxes and cheap gas!
- "Taxation without representation is Tyranny!"
- Legitimacy enables the State to function:
 - If you are going to tax, you need to be legitimate...
 - ... or you need a higher capacity to impose order.
- On whose behalf is the state acting?
 - Who is the sovereign?
 - To whom is the government subject to?
 - Who defines what problems are to be solved?
 - Who decides whether the State's job at solving problems is well done?

Taxation is unidimensional and simple.

- Beyond taxation, how do societies agree on what to do in general?
 - Doing legitimate things is always easiest and less risky for politicians
- What determines what actions are legitimate or not?
 - The preferences of the society!
 - Yeah, but... Society is not monolithic!
- Preferences over issues are dispersed between individuals
 - But are there really as many opinions as there are people?
- Individuals group and organize according to their identities.
 - The existing (conflicting?) identities in a society shape that society's culture.

But what is culture, anyways?

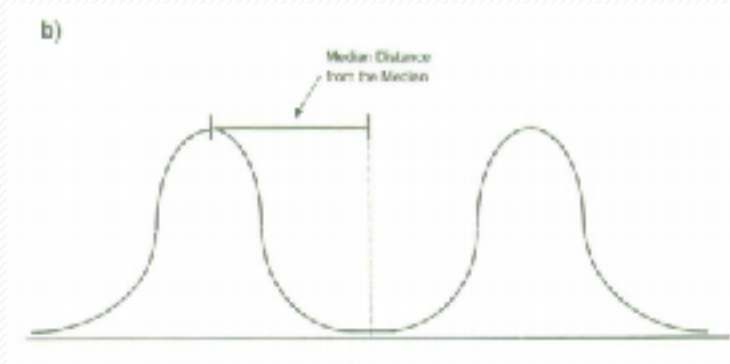
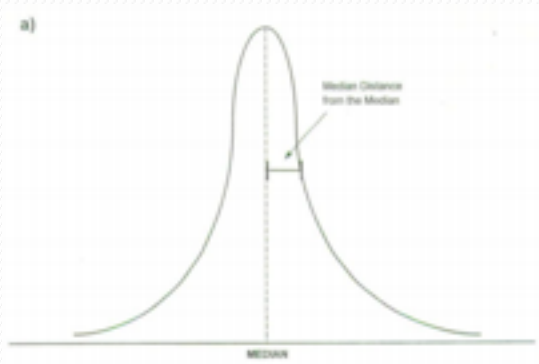
- The culture of a society is characterized by:
 - Identities
 - Social categories that structure the society
 - Norms
 - External expectations of behavior attached to an identity
 - Values
 - Internal preferences, determined by an understanding of the self, which is often influenced by one's identity
 - Beliefs
 - Mental frameworks of cause and effect, often related to identities and transmitted culturally through identity-based interactions.

Our in-group tendencies “Bind and blind” us

- One definition of “Social Capital”:
 - “The networks of relationships among people who live and work in a particular society, enabling that society to function effectively.”
- But is the presence of such networks inherently good?
 - The good side of “Social Capital”:
 - Trust and cooperation in tackling public issues.
 - Robert Putnam’s work in Europe (Making Democracy Work) and the US (Bowling Alone).
 - The bad side of “Social Capital”:
 - German towns with higher social capital saw a faster rise in the Nazi party
 - Satyanath, Voigtlaender and Voth (Bowling for Fascism)

Sadly, heterogeneity is a source of conflict

- Heterogeneity associates with:
 - Less support for public goods (Alesina, Baqir and Easterly, 1999)



- More fragmented places provide less public goods, split more often.
- More polarized countries enter in civil conflict and wars more often.

Sadly, heterogeneity is a source of conflict

- Theories on the optimal size of nations (Alesina and Spolaore):
 - Larger nations are more likely to be fragmented.
 - Public goods are more likely far from preferences of everyone, and conflict more likely.
 - Larger nations also benefit from economies of scale in trade and security.
 - Hence, there is an optimal size, which is often affected by world events.
 - Post-WWII globalization reduced the importance of larger national markets, hence the boom in secessions and state creation afterwards.
- There are many problems associated with “Forced co-existence”:
 - The Scramble for Africa and the random separation and union of tribes
 - Michelopolous and Pappaioneu
 - Bunching of different tribes and bands in US Indian Reservations
 - Dippel

**Where did the state
come from?**

We are a highly cooperative species



How do we sustain cooperation?

How do we contain the free-rider problem?

Cooperation is grounded not just on self-interest but also on moral sentiments

Homo Economicus: Do what you like most among the things
that you can

Alternative version: Do what you ought to do, given who
you are and who you want to become
A sense of belonging and loyalty to us

Guilt



Shame



Outrage



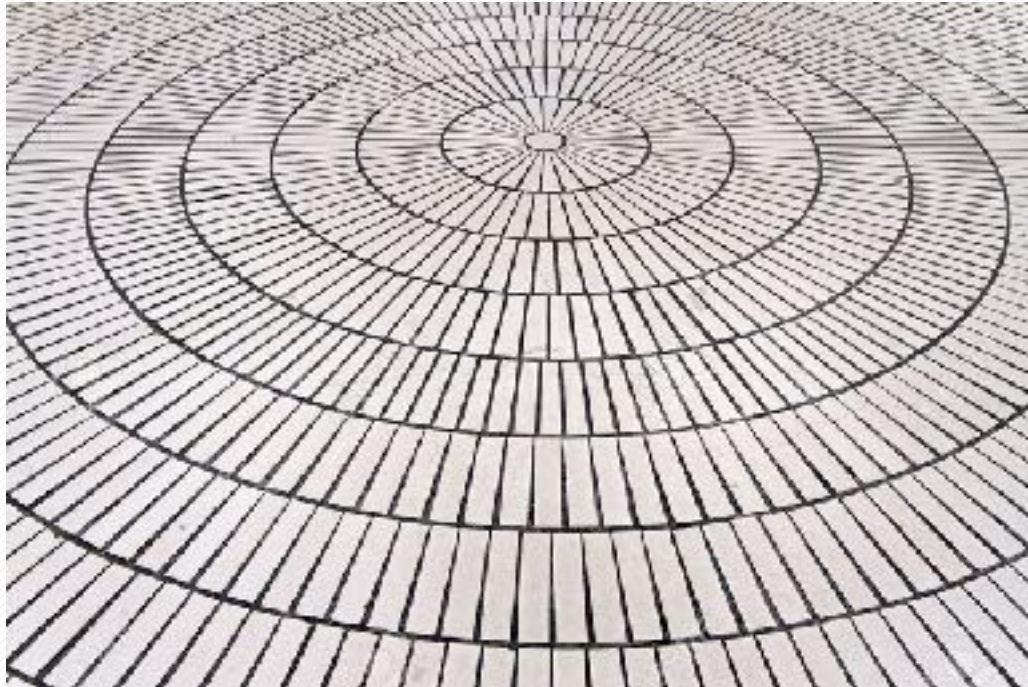
Pleasure when gossiping



Social pain



The different senses of us





Back when...

- We interacted with very few people
- We lived near people who looked like us
- We spoke to people who spoke like us
 - Accent detection module in the brain
 - Shibboleth in the Bible
- We lived with people who shared our beliefs

The remnants of a history of little interaction

- In Alaska, 19 languages
- In Mexico, over 130 languages
- In Cameroon, over 230 languages
- In Indonesia, over 700 languages
- In India, over 1600 languages



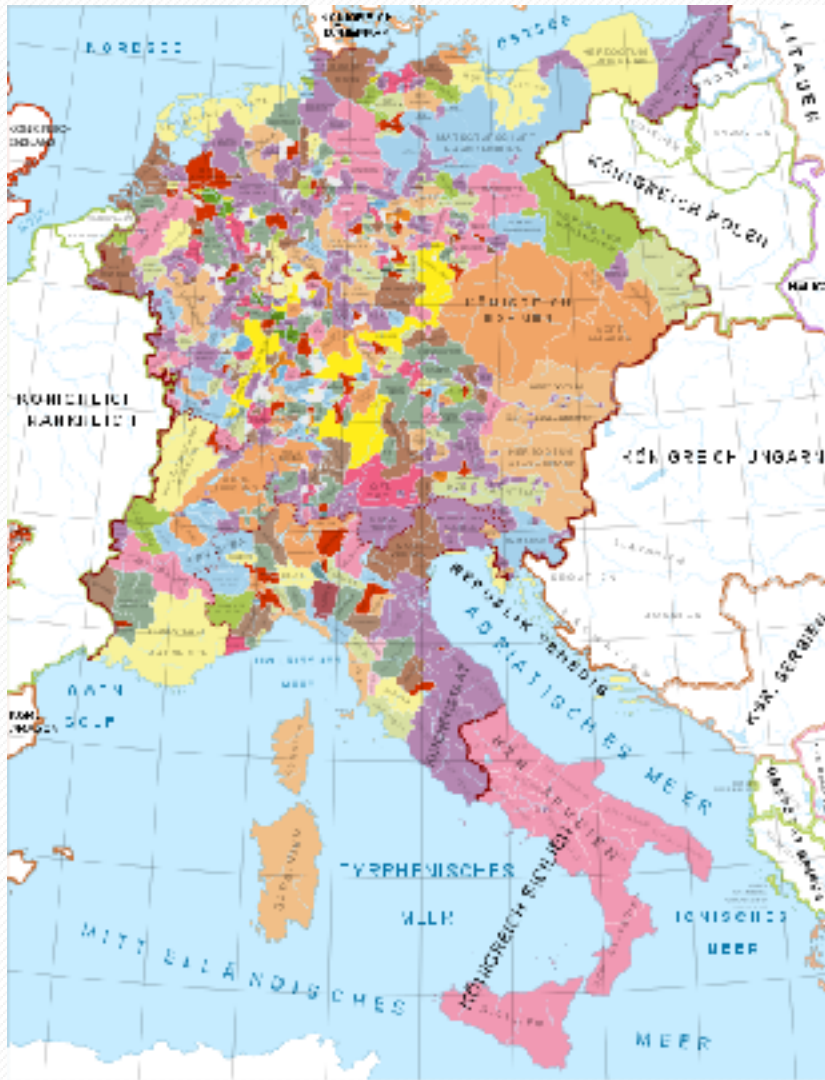




What is the sense of us that underpins the state?

- Common history? Common language? Common religion?
- Common race?



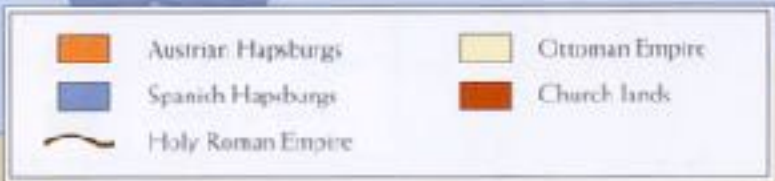


Central Europe in the XIII Century

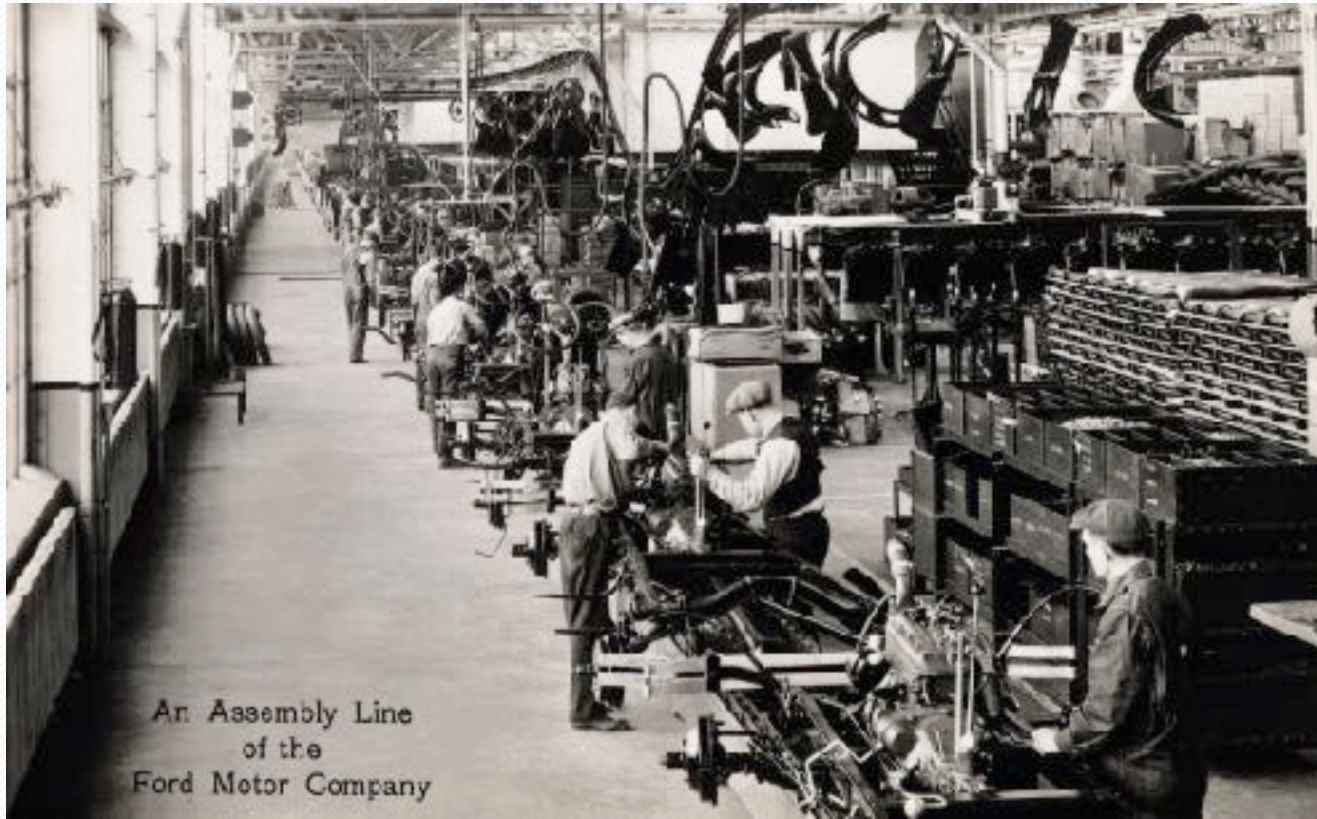
From the Middle Ages to the Modern Era



The Peace of Westfalia 1648



The Industrial Revolution



An Assembly Line
of the
Ford Motor Company

What did the Industrial Revolution need?

- A larger accessible market
 - Larger political entities
- A larger set of public goods
 - Education, health, pensions, unemployment insurance, infrastructure
- The first requires a broader “sense of us”
- The second requires a deeper “sense of us”

The Unification of Germany and Italy circa 1871



Now, many more want to unite



The Founding Myths help underpin the Sense of Us

- The Old Testament
 - Oldest part of the Old Testament is the Book of Judges and Samuel 1-2.
 - It tells the story of 12 tribes that decide to form a political union
 - Genesis tells the origin of the 12 tribes: they are brothers, sons of Jacob
- The US Constitution and the Myth of the Founding Fathers
 - The Founding Fathers bequeathed an incredible political arrangement
 - Thanks to it the US achieved freedom and prosperity
 - Were it not for the Founding Fathers, the US would look like... Canada
- The Nation-States in Europe based on language
 - The "us" was ethnic: the network of people you could communicate with
 - Complicated to unscramble the eggs: The Versailles Treaty

State formation in the developing world

Very heterogeneous paths

State functions in the colonial era

- The Industrial Revolution led to the possibility to deploy goods and technologies
- This required some “state functions” and accessible markets
- But much of the world lacked states that could provide these functions
- Britain stumbled into Empire in India, through the East India Company
- The territories colonized through the “Scramble for Africa” in the 1890s did not really have large areas under unified control

Paths to state formation

- Ancient States: China, Ethiopia, Thailand, Afghanistan
- Latin America (circa 1820): 18 states, one dominant language. One dominant religion, race differences
- Arab states (circa 1950s): The collapse of the Ottoman Empire, 19 states, one language, one dominant religion
- India (1947): 1650+ languages, many religions
- Pakistan: many languages but 1 religion
- Sub-Saharan Africa: 53 states, over 2000 languages

When identities are not shared, your loyalty is to your group to the exclusion of other groups



Nation building: an alternative to war and secession

- Tanzania vs. Kenya after independence
 - Tanzanian socialists invested in national identity
 - Swahilization of the country
 - Education: Common history, Pan-African identity
 - Local government: Formal village/district councils
 - None of this was done by Kenyan government.
 - Differences between Nyerere and Kenyatta
 - Pan-Africanist vs. Tribalist
 - Ted Miguel: Diversity associates with worse public goods provision in Kenya, not in Tanzania.
- Other forms of nation building:
 - Organizations of cross-identity engagement and formation of joint identity: Military, parties, etc...





The Sense of Us

Different ways of creating a sense of US

- Ethnicity
 - Language and ancestry
- Religion
 - With language cleavages?
- Civic values
 - Pledge allegiance to the flag and to the Republic
 - Liberté, Egalité, Fraternité
- Implications for who can be part of us

Some reasonable assumptions

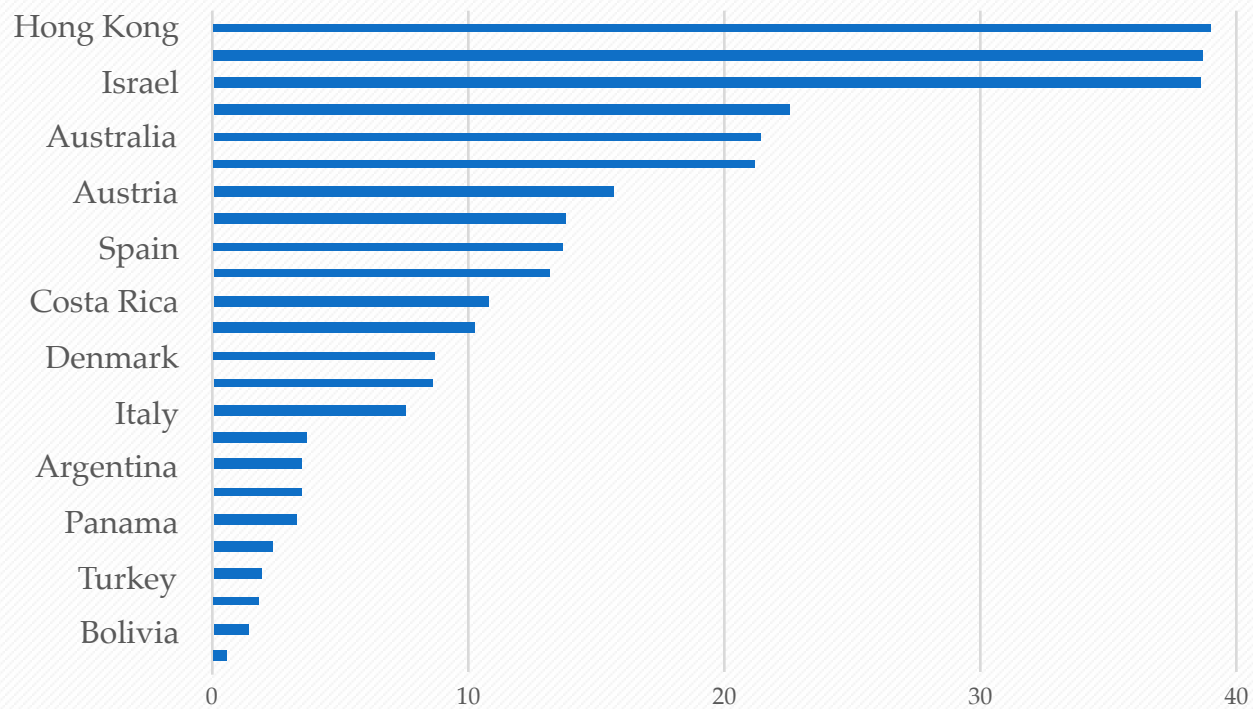
- You are not representative of the country you come from
- You have a sense of us that includes you

Immigranti





Immigranti



Aprile, 2015

The developing world is very closed to immigration

Singapore	1 in 2.4
Panama	1 in 24
Mexico	1 in 240
Colombia	1 in 400

Quotas on foreign skilled workers are very common

- Ireland: maximum 50% non-EU citizens
- Kazakhstan: maximum 30% foreign
- Egypt, Guatemala, Panama: maximum 10% foreign
- Cambodia: maximum 6% foreign
- Dem. Rep. Congo: maximum 4% foreign
- Ghana, Mozambique, Nigeria, Thailand: 1 or 2 per firm

Summing up

- Development requires technological diffusion
- For that to happen, a capable state is needed
- A capable state requires an “imagined community”
- ...deep enough to agree on complex public goods
- ...broad enough to allow for economies of scale
- ...and the mixing of new forms of knowhow
- Many states, rich and poor, are stumbling on a shared sense of us