

WHY NATIONS SUCCEED?
DISTRIBUTION AND REACH OF THE STATE POWER

by

Nejra Cekic

A dissertation submitted to the faculty of
The University of North Carolina at Charlotte
in partial fulfillment of the requirements
for the degree of Doctor of Philosophy in
Public Policy

Charlotte

2020

Approved by:

Dr. Dale L. Smith

Dr. Stephanie Moller

Dr. Yang Cao

Dr. Thomas L. Reynolds

©2020
Nejra Cekic
ALL RIGHTS RESERVED

ABSTRACT

NEJRA CEKIC. Why nations succeed? Distribution and reach of the state power.
(Under the direction of DR. DALE L. SMITH)

What explains the difference in the performance of the world's nations? Why do some succeed, and others fail? I argue that the primary determinants of development are two dimensions of a country's institutional setting. The purpose of this study is to explain the effects of the two dimensions (infrastructural power and inclusiveness) on three indicators of socio-economic performance: economic growth, income distribution, and human capital development. Infrastructural power is the effectiveness with which state exercises its authority throughout its territory and over society, and inclusiveness concerns balance of power between the state and society. While infrastructural power is necessary to function effectively, only in a highly inclusive country does the society have the bargaining power, and the state the incentive, to improve social welfare. To test my hypotheses, I perform a cross-sectional analysis on a sample of 161 countries. Although I find empirical support for my hypotheses, the statistical analysis provides me only a cross-national snapshot, and does not illuminate how institutional choices might be changing. The Former Yugoslavia provides a natural experiment in which descendant countries pursued separate paths after the dissolution of their mother country. I propose that the differences in their current situations are the result of different institutional paths each country followed. Qualitative analysis confirmed that while exercise of infrastructural power by the state gives rise to economic effectiveness, only in a country where there is a balance of power between state and society, can we speak of sustainable development.

ACKNOWLEDGEMENTS

I take this opportunity to extend my sincere gratitude and appreciation to those whose invaluable help made this study possible. I feel privileged and fortunate being associated with these people. First and foremost, I would like to express my sincere gratitude to my advisor and mentor, Dr. Dale L. Smith with whom I shared the excitement and joy of the scientific discovery. His unfailing support, patience, immense wisdom and guidance helped me shape the foundations of my research and translate my ideas into words. Even when I venture into research on my own, I will always have in mind everything he taught me. I gratefully acknowledge the members of my thesis committee for their time, support and valuable feedback. Thanks to Dr. Stephanie Moller for her help, advice and continuous encouragement throughout my years of study. Thanks to Dr. Yang Cao whose insights and questions never stopped challenging me and inspiring me to think further. Special thanks are reserved for Dean Thomas L. Reynolds and the Graduate School for their fundamental role in bringing me to the environment in which this research has come to life. Without their support and funding, this would not have been possible. I will always cherish the years of my scientific growth they made happen. I would also like to extend thanks to the Open Society Foundations whose funding for the field study was instrumental in illuminating my research. Finally, I would like to acknowledge the contribution of academia and civil society representatives from Bosnia and Herzegovina, Croatia, Montenegro, North Macedonia, Serbia and Slovenia, and fellow researcher and a friend - Peter Thompson. And, to all who directly or indirectly lent their hand in this venture, thank you.

TABLE OF CONTENTS

LIST OF TABLES	vi
LIST OF FIGURES	vii
CHAPTER 1: INTRODUCTION: The elusive quest for development	1
CHAPTER 2: LITERATURE REVIEW AND THEORETICAL FRAMEWORK	10
2.1: Literature Review: Institutions as the primary determinant of development	10
2.2: Theoretical Framework	30
CHAPTER 3: DATA AND CROSS-SECTIONAL ANALYSIS	40
3.1: Data	40
3.2: Cross-sectional analysis	95
CHAPTER 4: A CASE STUDY OF THE FORMER YUGOSLAVIAN REPUBLICS	106
4.1: Introduction	106
4.2: Bosnia and Herzegovina	116
4.3: Croatia	124
4.4: Montenegro	130
4.5: North Macedonia	137
4.6: Serbia	143
4.7: Slovenia	148
4.8: Discussion	154
CHAPTER 5: CONCLUSION: Development as an ever-evolving concept	166
REFERENCES	176
APPENDIX: SUPPLEMENTARY MATERIAL	183

LIST OF TABLES

Table 2.2.1: Institutional Matrix and the socio-economic performance	38
Table 3.1.1: Top 5 countries with the greatest economic growth rates	43
Table 3.1.2: Top 5 countries with the greatest economic decline rates	44
Table 3.1.3: Examples of countries at different levels of Gini index	46
Table 3.1.4: Countries which rank significantly better on HKDI	51
Table 3.1.5: Countries which rank significantly worse on HKDI	52
Table 3.1.6: Examples of HKDI score ranges across countries	54
Table 3.1.7: Polity fragmentation: categories by countries/years	60
Table 3.1.8: Political violence: categories by countries/years	66
Table 3.1.9: IP Index by countries	67
Table 3.1.10: Constraint on the executive: categories by countries/years	76
Table 3.1.11: CPI by countries	79
Table 3.1.12: Civil liberties by countries	83
Table 3.1.13: Examples of Inclusiveness Index by score ranges	86
Table 3.1.14: Ethnic fractionalization by countries	92
Table 3.1.15: Arable land by countries	93
Table 3.2.1: Mean annual Economic Growth rates by quadrant	99
Table 3.2.2: OLS Regression Estimates of Economic Growth	99
Table 3.2.3: Mean Income Distribution by quadrant	101
Table 3.2.4: OLS Regression Estimates of Income Distribution	102
Table 3.2.5: Mean Human Capital Development by quadrant	104
Table 3.2.6: OLS Regression Estimates of Human Capital Development	104
Table 4.1.1: Institutional matrix of the former Yugoslavian republics	107
Table 4.1.2: Economic Growth Rates by quadrant in the former Yu. republics	109
Table 4.1.3: Income Distribution by quadrant in the former Yu. republics	109
Table 4.1.4: Human Capital Development by quadrant in the former Yu. republics	110

LIST OF FIGURES

Figure 3.1.1: Economic growth over the world	44
Figure 3.1.2: Income distribution over the world	47
Figure 3.1.3: Outline of the HDI	49
Figure 3.1.4: Outline of the HKDI	49
Figure 3.1.5: Comparison of HDI and HKDI rank	53
Figure 3.1.6: Top 5 and bottom 5 countries on HKDI scale	54
Figure 3.1.7: Human capital development over the world	55
Figure 3.1.8: Polity fragmentation over the world	60
Figure 3.1.9: Political violence over the world	66
Figure 3.1.10: Infrastructural Power Index over the world	68
Figure 3.1.11: Constraint on the executive over the world	77
Figure 3.1.12: CPI over the world	80
Figure 3.1.13: Civil liberties over the world	85
Figure 3.1.14: Inclusiveness Index over the world	86
Figure 3.1.15: Institutional Matrix	90
Figure 3.1.16: Institutional Matrix over the world	91
Figure 3.1.17: Ethnic fractionalization over the world	93
Figure 3.1.18: Arable land over the world	94
Figure 3.1.19: Colonies over the world	95
Figure 4.2.1: Thematic map: Bosnia and Herzegovina	123
Figure 4.3.1: Thematic map: Croatia	129
Figure 4.4.1: Thematic map: Montenegro	136
Figure 4.5.1: Thematic map: North Macedonia	142
Figure 4.6.1: Thematic map: Serbia	148
Figure 4.7.1: Thematic map: Slovenia	154
Figure 4.8.1: Map of the former Yugoslavian republics	161
Figure 4.8.2: Human Capital Development of the former Yu. republics	163

CHAPTER 1: INTRODUCTION:

The elusive quest for development

“The rich are different from the poor: they have more money. Trekking through the tropics trying to make poor nations rich has raised more questions than it has answered.

Why if I jet to Geneva do I encounter a shiny prosperity, while a few hours more by plane brings me to Lahore and its poor masses? How did some people (about 900 million of them) in Western Europe, North America, and parts of the Pacific Rim find prosperity, while 5 billion people live in poor nations? Why do 1.2 billion people live in extreme poverty on less than one dollar per day?” (Easterly 2001, 289)

Nearly two decades after Easterly’s ‘trekking through the tropics’ and Geneva is still Geneva and Lahore is still Lahore. The gap between the rich and the poor is persistent. According to the latest adjustment to the international poverty threshold, about 650 million people still live on less than \$1.90 per day (Roser 2019). This is certainly an improvement to the time of Easterly’s travels when this number was surpassing a billion. However, the fact is, that in time of ‘smart technology’, more than half a billion people still live on less than \$1.90 per day. While we see a significant decline of extreme poverty in Asian countries, sub-Saharan Africa remains as it was, with too many people in destitute living conditions. Three decades ago, China and India alone were home to more than 50% of the extremely poor; however, over the past decades they experienced significant economic growth and escaped the extreme poverty trap. Extreme poverty is

now concentrated in sub-Saharan Africa, and according to projections this will continue to be the case. World Bank estimates that in one decade, almost 90% of people living in extreme poverty will be from sub-Saharan Africa (Roser 2019). As the rich are discovering new technologies and reshaping daily life to live 'smarter', the more the divergence is becoming deafening.

It seems that the old saying that a rising tide lifts all boats is not completely true -- at least not for sub-Saharan Africa. According to The United Nations Development Programme (UNDP 2018), people from countries such as Mali, South Sudan, Nigeria, Chad and Central African Republic are expected to have less than 60 years of life. On the other hand, for those born in Germany, Finland, Norway, Sweden and Canada life expectancy exceeds 80 years. A person born in Mali is predicted to live 20 years less than a person born in Germany. This statistic sounds pessimistic; however, the real question is, is this predetermined or can it be changed. What can be done so that a Malian citizen can hope for the same life span as a German? Not only do some people live a shorter life or subsist with less than \$1.90 per day, but also their 'future is dying.' A Malian child has a lower chance to live through their fifth birthday. In sub-Saharan Africa, the risk of a child dying before reaching age five is still frighteningly high. In Mali the mortality rate for those under five is about 100 deaths per 1000 live births, which is 25 times higher than in Germany (UNICEF 2019). Disparity does not end there. Not only do many children not survive through their fifth birthday, but those that do survive, have lower prospects in health and education. In Mali, South Sudan, Nigeria, Chad and the Central African Republic, the mean years of schooling is less than 8 years. On the other hand, in Germany, Finland, Norway, Sweden and Canada people on average complete more than

12 years in school (UNDP 2018). According to this data, Germany is the top ranked country in terms of mean years of schooling, while Mali is one of the worst ranked countries. Germans educate on average around 14.1 years, while Malians get on average 2.3 years of school. This means there is on average a 12 year education gap between German and Malian.

But, why should anyone not living in Mali care what happens in Mali? We do not have to be altruists to care about problems happening in Mali, rather realists. Living in the era of globalization, means that problems diffuse more easily. A problem at one place, can be a problem at all places. As the old Donne's poem states "no man is an island entire of itself; every man is a piece of the continent, a part of the main", so does this apply to nations. Poverty at one place will be everyone's problem. Where there is poverty, there is more death. People have worse food, poorer sanitation, inadequate health care, and insufficient education. Where there is poverty, there is desperation, and where there is more desperation, there is violence and crime. Where there is poverty, there is more discontent. Without even basic needs satisfied, people lose hope and try seeking it elsewhere. None of these issues is contained in one place. Diseases cross borders, national unrest can grow into the international conflicts and desperate people in the pursuit of hope flee their homes. Even if the economic, political and social reasons are not enough to convince us to care that a frightening number of children do not live past their fifth birthday in some place, even if name is unfamiliar to us, then the ethics must lead us to care. Easterly argues that "as long as there are poor nations suffering from pestilence, oppression, and hunger" and "as long as human intellectual efforts can devise ways to make them richer, the quest must go on" (2001, xiii). In some way, this is like the

Hippocratic Oath of those that acquired more means in terms of physical and human capital to aid those with less and above all to do them no harm. History shows us there was no such oath. Most of the currently poorest countries have been colonized and most of currently rich countries were colonizers. While I am not proposing that this historical fact determined present development levels, I assume it had influence. As geography and culture, history made a country what it presently is. However, while I think that these characteristics shape the present, I argue they do not determine the future. No condition is permanently disabling. I am proposing that differences in national performances will be the result of different institutional paths countries followed. As the primary determinant of success of a country, the institutional setting can either assist or inhibit development. Without strong institutions, a country is like a body with a weak immune system, open to all diseases. Building a strong institutional setting will protect a country from mishaps, while weak institutions will crumble under the slightest pressure. As Aristotle (2016, 173) said, “for as healthy bodies and ships well provided with sailors may undergo many mishaps and survive them, whereas sickly constitutions and rotten ill-manned ships are ruined by the very least mistake, so do the worst forms of government require the greatest care”.

In my quest to find the answer why some countries are more successful than the others, I conclude that institutions play the crucial role in distinguishing between the ones that succeed and those that do not. Easterly’s book, *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*, is written testament to his years of fieldwork in developing countries that are at the bottom of the economic pyramid. The entire book is a quest, an attempt to find a way to minimize the gap

between the rich and the poor countries. Easterly describes a range of different remedies offered by the experts to the poor countries such as foreign aid, capital investment, education, controlling population growth, loans and even debt relief. During his 'adventures and misadventures in the tropics', what became apparent is that no remedy has delivered success, as none of the treated countries achieved the expected growth. Easterly argues that these remedies did not fail because of the economics but because of the difficulty of applying the principles in practice. Nothing could help, because the major factor was lacking. Institutions that would facilitate and sustain those remedies were not in place. Without institutions, there is no 'steering wheel', no 'Capitan of the vessel' in a country. Consequentially, every remedy had limited reach and was short term.

In order for a country to prosper, there needs to be strong institutions; however, it is vague what strong institutions imply, and why some countries develop them, while others do not. Although much of literature speaks of the importance of the institutional factor, the scope of the term and its measure is still unclear, and hence its relationship with a nation's performance. We can think of many countries that have strong institutions, yet they still differ in socio-economic performance. This is because socio-economic performance is multifaceted. To explore performance in more holistic way, we should think beyond income. How is the income being distributed, is it concentrated in the hands of the few or more evenly distributed within society? Both, China and Germany have strong institutions; however, their institutions are not alike. I propose that institutions cannot be conceived of as unidimensional. While all functional countries have one commonality, state capacity, they differ in terms of state-society relations. I

mentioned China as a success story in breaking out of the extreme poverty trap and rapidly growing to become one of the most important economic actors in the world scene. However, what distinguishes between Chinese and German institutions is the distribution of power between the state and society. Strong state capacity results in robust economic activity. However it, per se, cannot stimulate socially oriented policies. For socially oriented policies, there needs to be a power balance between state and society. In Germany, where state-society relationship is more balanced, society has higher bargaining power to ask for its ‘piece of the pie’ and the state has the incentive to improve social welfare. This means, that we can expect more socially oriented policies in Germany, consequentially leading to higher human development. To recall, Germans are on average the most educated nation, with mean years of schooling above 14 years. On the other hand, Chinese acquire on average less than 8 years of education. However, as no condition is permanently disabling, so the institutional setting is changeable. Change can be forward or backward. Recall how China was a home to an alarmingly high proportion of world’s extremely poor and think how rapidly this has changed over the past years. China proves that no condition is permanently disabling.

In the words of Goethe “all beginnings are delightful; the threshold is the place to pause,” so before reading further, I will provide a brief roadmap to guide you to what you can expect in the upcoming pages. I begin by covering literature and outlining my theoretical framework. From modernization theories to neo-institutionalism, I explore the literature to identify causes and stages of development. While recognizing the importance of geography, culture and history in influencing development, I propose these factors are not permanently disabling. What is permanently disabling are bad institutions. I assert

institutions are the key factor in determining development. I draw from Mann's analysis of the state and his concept of 'infrastructural power' (1984) in defining institutions. Motivated by his 'functionality' and 'institutionality' distinction in state's power, I develop my two-dimensional institutional setting. However, just as my definition of development goes beyond income, so my definition of institutions goes beyond state power. This is where I complement Mann's perspective on the origins of state power with Acemoglu and Robinson's (2017) state-society relations. I propose that each country is distinguished by its two-dimensional institutional setting that influences socio-economic performance. Institutional setting consists of infrastructural power (capacity) and inclusiveness (the balance of power between the state and society). I argue that each of these two dimensions influences different aspects of performance. As infrastructural power looks at effectiveness with which a state exercises its authority, the reach of that power will affect economic growth. Alternatively, as inclusiveness looks at the power relationship between state and society, its degree will affect income distribution and human development.

In order to explain the effects of these two dimensions of institutions on socio-economic performance, I will create institutional indices and perform a cross-sectional analysis on a sample of 161 contemporary countries. As socio-economic performance is multifaceted, I will construct three models to explain how the institutional setting of countries affects each performance dimension: economic growth, income distribution, and human capital development. I expect that infrastructural power being a measure of functionality, will affect economic activity in a country. I propose that countries with strong infrastructural power will grow faster compared to countries with weak

infrastructural power as they will be more effective in enforcing policies and keeping stability. I expect that inclusiveness as a measure of the distribution of power between state and society, will affect how income is being distributed and the degree of human development in a country. I propose that more inclusive countries will have lower income inequality and higher human development than non-inclusive countries due to a more balanced role of both actors, state and society.

However, cross-sectional analysis only helps me solve part of a puzzle. Being a cross-national snapshot, it does not provide context of different institutional settings in countries and their effect on socio-economic performance. To illuminate this issue, following a most similar case study selection, I leveraged the case of the former Yugoslavia republics as a natural experiment to explore how institutional paths of countries led them to different performance outcomes. During my ‘adventures and misadventures in Yugoslavia’, I visited capitals of former federal republics and interviewed five non-government representatives in each. We discussed how the republics that had been under the umbrella of one country diverged after dissolution of the mother country. If the past shapes the present, how are these countries that share history, on different paths now, some towards success, others towards stagnation. No two entities are completely alike. Regardless of sharing a history, these countries differ in geography, culture and respective historical positions. However, I assert that while all these factors played their part, none was determining. What distinguished between these countries the most is not their culture, but institutions. ‘Adventures and misadventures in Yugoslavia’ complemented my cross sectional analysis by providing depth to the scope. Zooming in on the map of Southeastern and Central Europe to where Yugoslavia used to

be, I examined in greater depth how institutional choices brought these countries to where they currently are. The region as Judah calls it in *The Economist* article, "Yugosphere"¹ is both similar enough and diverse enough to provide an interesting case to test my theory.

Development is a broad concept that deserved much attention in the literature, but as any such concept is still not fully illuminated and may never be. Any definition of development is like what the word itself implies, transient and never completed.

Development in present may be a good base for development in future, however, it is not a guarantee. Development implies constant progress and evolution. Why some nations succeed while others stagnate is a great puzzle. I think that trying to solve this puzzle is what Easterly would call the 'elusive quest'. However, I propose that by looking at the two dimensions of any country's institutional setting, we can better understand what leads countries to higher economic growth, and in turn what leads countries to higher human development. Infrastructural power is necessary for any country to function.

Countries with strong infrastructural power have the potential to grow faster. However, if we believe there is more to development than growth of income, infrastructural power cannot explain further. To see how developed a country is, we must look to the inclusiveness of its institutions. As a more balanced distribution of power between state and society, highly inclusive countries will invest more in the well-being of people. The question of what makes a nation a success is very challenging. Some may argue, economic growth is a measure of success. But no one can dispute that if that growth is not accompanied by the wellbeing of its people, it cannot be called a success. After all, "people are the real wealth of a nation" (UNDP 2010).

¹ Term used to describe territory of former Yugoslavia and propensity of these countries to continue their togetherness despite the conflicts and separateness. The term was coined by Tim Judah in 2009. Judah is *The Economist* journalist for Balkan issues.

CHAPTER 2: LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1: Literature Review: Institutions as the primary determinant of development

Throughout history, there have been many schools of thought on development, its causes, stages and effects. However, the question why some countries succeed, and others fail still remains unanswered. In my study, I focus on institutions as the primary determinant of development. This chapter consists of two sections: literature review and theoretical framework. The literature review is further organized in two parts. In the first part, I explore institutional theories that argue how institutions shape development. In the second part, I distinguish between two dimensions of institutions -- state capacity and regime -- to explore how each influences development. Before going further, as a preface, I cast a light on modernization theory that preceded institutionalism.

Why did traditional societies evolve into modern societies? Modernization theories explore societal dynamics in transformation of traditional to modern societies. These theories find that economic, social, cultural, and technological factors contribute to progress in societies. According to Kuznets and Murphy (1966), differentials in development between countries dates back to as early as 1900. The only way for a developing country to converge, they argue, is its ability to enter a growth process with a faster growth rate than already developed countries. Kuznets and Murphy argue that the major source of development in nations is their growing productive power that comes from 'science-oriented technology'. On the other hand, Inkeles and Smith (1974) put the greatest emphasis on people and people's adaptation to new ways of doing things.

According to them, poor countries have negative environment effects; however, this does not mean they are permanently disabled. Both people and institutions are not fixed and can change. “Insofar as men change under the influence of modernizing institutions they do so by incorporating the norms implicit in such organizations into their own personality, and by expressing those norms through their own attitudes, values, and behavior” (1974, 307). This implies that people do not resist norms and can adapt to new ones. Inglehart (1997) also speaks of modernization in terms of changes in people’s values. According to him, there are causal linkages between economics, culture and politics. These causalities do not go in one direction but are mutually supportive. Socioeconomic change is not a linear process, there are diminishing returns for everything at some point. According to Inglehart, modernization is “a process that increases the economic and political capabilities of a society: it increases economic abilities through industrialization, and political capabilities through bureaucratization” (1997, 5). Postmodern life brings new values. Inglehart argues that there is a shift in survival strategies. ‘Intergenerational value change’ means that people will change value priorities. There is adoption of values such as mass participation, interpersonal trust, tolerance of minorities, and free speech. Democracy that accompanies modernization is not inherent; though, it is the most likely outcome. Inglehart argues it is too costly to avoid it in the post modernization process. From materialist to postmaterialist values, economic growth is no longer sought as the primary goal but rather, the quality of life. According to modernization theories, societies will develop if they adopt modern values and know-how. However, Huntington disproves this causality by drawing attention to a missing and, the most important factor, political order.

Institutional theories

While there are more ways to talk about institutions, there is no dispute they have an important role in determining development. According to Huntington, political order is a necessary factor to absorb the stress of any change in society. He argues that political order needs to predate any social and economic change in the process of modernization. According to Huntington (1968), major causes of instability and political disorder are rapid social change, rapid mobilization of the new groups into politics coupled with slow development of political institutions. Without organization and institutionalization in political institutions, social and economic change have destructive results. He defines institutionalization as “the process by which organizations and procedures acquire value and stability” (1968, 12) and measures its level by four parameters. These parameters are: adaptability/rigidity, complexity/simplicity, autonomy/subordination, coherence/disunity. More adaptable, complex, autonomous and coherent means more institutionalized. Huntington argues that societies deficient in stable and effective governments are deficient in mutual trust among citizens as trust among citizens and stable and effective government go hand in hand. He further argues that modernization also brings changes in the amount and distribution of power, greater political consciousness and involvement. If political institutions do not keep pace with expanding political participation, there is a high probability of instability in future. Organization is the imperative, and “discipline and development go hand in hand” (1968, 24). As the key feature of a modern polity, Huntington identifies “the scope of the political consciousness and political involvement of its population” (1968, 89). “Rationalized authority, differentiated structure, and mass participation thus distinguish modern polities from antecedent polities” (1968, 35). He argues that power can be distributed in two ways, it can be either concentrated or

dispersed. In a totalitarian dictatorship, government controls people while in contemporary democracies people control the government. However, Huntington argues that maximizing power in the short run, weakens institution in the long run (1968, 26). This means that the distribution of power can affect the stability of a polity. Similarly, in *Politics*, Aristotle argues that having more restrictions imposed on the functions of kings, “the longer their power will last unimpaired; for then they are more moderate and not so despotic in their ways; and they are less envied by their subjects” (Aristotle 2016, 154). Huntington argues that political order is essential for any socio-economic change to result in national development. However, how to measure political order and evaluate its effects is yet another issue. Barro (1991) conducted an empirical analysis to explore effects of political instability on economic growth and found an inverse relationship – more instability leads to less growth. This could be due to insecure property rights resulting from the unstable environment. Barro measured political instability using number of coups and revolutions per year and number per million population of political assassinations² per year. By finding significant inverse effect of political instability on economic growth, Barro confirms Huntington’s theory that the political order creates an environment that generates development.

While Huntington makes it clear that political order needs to precede any socio-economic change and stresses the necessity of institutionalization, what is still not clear is what institutions are. In his groundbreaking book, *Institutions, Institutional Change and Economic Performance*, North defines institutions as “the rules of the game in a society”

² Knack and Keefer (1995) argue that Barro’s proxy for political instability may be misleading. A country can exhibit insecure property rights even without coups and revolutions, for example, dictators who can be very effective at repressing rebellions and avoiding revolutions, will also be the ones not to offer secure property rights.

(North 1990, 3) and organizations as “groups of individuals bound by some common purpose to achieve objectives” (North 1990, 5). He explores the symbiotic relationship between institutions and organizations that evolves as a consequence of an incentive structure; that is, how they perceive and react to changes in the opportunity set.

According to North, “one gets efficient institutions by a polity that has built-in incentives to create and enforce efficient property rights” (North 1990, 140). However, the problem with enforcement is generally that it requires the state to be the coercive force.

Coerciveness is needed in order to monitor and find out if contracts are violated, to measure the violation and finally be able to impose penalties on the violators. But why should this concern us? Because, when the state is coercive, there is a great possibility for those running the state to prioritize their self-interest at the expense of the rest of the society. It is uncertain whether there can be such an entity in which the state does not abuse its power to pursue its own self-interests, but to act in society’s benefit. Ostrom (1971, as cited in North (1990)) suggests that the correct institutional form can restrain tyrannical tendencies, but in order to have a self-enforcing structure, there needs to be gradual development through continuous marginal adjustments of the institutions. This gradualism puts firm pillars and enables a self-enforcing mechanism to exist later on. In the rapidly transforming economies of the developing world, radical change and lack of continuous adjustments does not give rise to the institutional setting that can produce self-enforcing mechanisms. North speaks of enforcing contracts and monitoring property rights as the state’s roles, and for the state to be able to perform these roles it needs to be coercive. However, the issue with coerciveness is that it may lead to tyranny, without a proper institutional setting.

According to North (1990) the best environment for a polity exists when there is built-in incentive structure in which the institutions do not abuse their coercive force and are not governed by the self-interest of the elite. However, he is vague about what aspects or dimensions the institutional setting is made of. It is also uncertain what made institutions in some countries assist development as opposed to other countries where they inhibit development. Evans (1995) explores different types of state and Evans and Rauch (1999) later test their effects on development. Evans argue that states vary in terms of internal structures and relations to society. There are two types of state: predatory and developmental. On the one hand, in predatory states, there is no institutionalized cohesion and ties are purely on a personal basis. In this case, the state has no ability to prevent individual maximization of interests or to encourage pursuit of collective goals. On the other hand, developmental states approximate the Weberian bureaucratic state. Evans (1992) argues that for the state to be 'developmental,' the government needs to be reformed to replace a patronage system with a professional bureaucracy. There is a meritocratically employed state office tied with the society through institutionalized channels. In such states, there is a "combination of corporate coherence and connectedness" (1995, 12). Evans and Rauch (1999) also draw on the 'Weberian state hypothesis' when exploring how institutions impact a nation's performance. They test the 'Weberian state hypothesis' on a sample of the core economic agencies of 35 developing countries for the period 1970-1990 to see how the bureaucratic structure affects economic growth. Their 'Weberianness Scale' measures "the degree to which core state agencies are characterized by meritocratic recruitment and offer predictable, rewarding long-term careers" (1999, 749). Evans and Rauch find significant correlation between their

‘Weberianness Scale’ and growth in real GDP per capita. They conclude that without proper state bureaucracy, there can be no policy environment inducing economic growth, showing that the public institutions have a crucial role in the economic performance of a country.

Another scholar that explored the effects of institutions on national development is Easterly. In his book *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*, he provides a practitioner’s point of view on development. In exploring different remedies for countries at the bottom of the economic pyramid his team faced unsuccessful results. Finally, Easterly concludes that bad governance was the cancer of these countries. He argues that the only way to stop the cycle of bad policies is through proper rule of law and good quality institutions. Easterly further argues that in order for any nation to achieve prosperity, everyone needs to have the right incentives and that the government needs to implement good sets of policies. “Broad and deep development happens when a government that is held accountable for its actions energetically takes up the task of investing in collective goods like health, education, and the rule of law” (Easterly 2001, 289). But what remains elusive in Easterly’s book is how does such an environment where everyone has the right incentives and “a common consensus to invest in the future” arise (Easterly 2001, 289).

Unpacking institutions: state capacity and regime

In the first part, you read that institutions shape development. Although North explained what institutions are and how they interact with organizations, it is still unclear where state power is coming from and how it reaches society. In this section, I unpack institutions to explore the ability of the state to exercise power, the form in which power

is distributed, and consequently how the exercise and form of power affect development. As opposed to North whose book provides us with state mechanisms, Mann (1984) talks in terms of the power of the state relative to society. In approaching the matter, he argues that we need to distinguish between two levels of analysis: 'institutional' and 'functional'. Mann is trying to explain North's 'tyranny' and 'enforcement' in a different manner, more so through state-society relations based on two levels of analysis. Unlike North, Mann makes a very clear distinction between despotic power, similar to tyranny, and 'infrastructural power,' similar to enforcement, as different dimensions of the state that should be analyzed separately. In order to explain this relationship, Mann is building on the theories of the nature and origins of the state's power. He recognizes the importance and necessity of the state saying that only stateless societies were primitive ones. According to Mann, no complex and civilized societies can exist without a "centre of binding rule-making authority" (1984, 119), which allows their survival and endurance. Under the 'binding rule-making,' he means multiple functions: maintenance of internal order, military defense, maintenance of communications infrastructures and economic redistribution (1984, 120-121). For any society to function, these four activities are necessary. So, if one were to ask, why the state? Mann would reply, "Necessity is the mother of state power" (1984, 120). Apart from the necessity and the 'multiplicity of state functions', the third precondition of state power is the territorial centralization over which the state has authoritative power.

Mann is also trying to find out the root of the state's power and self-interest driven tendencies, and for this he uses the term 'despotic power'. He is trying to explain the roots of the autonomous power of the state in the above-mentioned preconditions:

necessity, multiplicity, and territorial centralization. He finds that it is because of these preconditions that the state will be able to exert despotic power. This power exists to the degree where society is unable to control those forces once they are set up. According to Mann, despotic power means the 'autonomy of power' by the state, "the range of actions which the elite (are) empowered to undertake without routine, institutionalized negotiation with civil society groups" (1984, 113). Examples range from the absolutist power held by the Chinese emperor as the Son of Heaven to the Roman emperor whose power was unrestricted except in the affairs controlled by the Senate. However, this is not to say such power is omnipotent. According to Mann, the state cannot hold on to such power for long, and "logistical infrastructures for penetrating and coordinating social life" (1984, 135) are needed. Without these 'infrastructures', the despotic state will have limited success and can only claim territorial control. When trying to explain the infrastructural power, Mann uses the example of the modern capitalist democracies. He explains this dimension in terms of the state's capacity to actually enforce its decisions. Mann explains the 'infrastructural power' as the ability of the state to penetrate the society and logistically coordinate and implement decisions within territorial boundaries. In order to clearly distinguish between the two dimensions, Mann uses the vivid example of a Red Queen that has the power to have a person's head cut off at her whim (despotic power), but she is not necessarily able to get to the person once s/he is out of her sight (infrastructural power). In this case, the Red Queen has high despotic power, but low infrastructural power. Alternatively, in modern democracies as leaders are elected and recallable, they have no power to overturn the fundamental rules without a social movement to back them up. Society restraints the control of the leading elite, hence,

despotic power is limited as the state's power over society is limited. However, the state is able to "penetrate and centrally coordinate the activities of civil society through its own infrastructure" and hence the infrastructural power of the state is strong in such settings. Mann suggests that although in theory the two dimensions 'despotic power' and 'infrastructural power' are autonomous, in practice there may be a relationship between them. He associates these two dimensions and provides historic examples of the four types of states (1984, 115). The weakest type is the 'feudal' (e.g. medieval Europe) as it is both low in the sense of infrastructural coordination and despotic power. High despotic power but low capacity would be found in the ancient empires of Rome, Egypt and Persia, and Mann calls these 'imperial'. High in both dimensions is the 'authoritarian' type, for example Nazi Germany or Soviet Union as there is "more institutionalized sense of despotism, in which competing power groupings cannot evade the infrastructural reach of the state, nor are they structurally separate from the state" (1984, 116). Finally, capitalist democracies approximate the 'bureaucratic' type, as there is a high degree of organizational capacity as decisions are enforceable through the infrastructure of the state, but low despotic power because of civic society groups that do not allow bureaucracy to set its own goals (1984, 115). Exploring Mann's concepts, Soifer (2008) compares despotic power to Marxist teachings about autonomy of the state and infrastructural power to Weber's teachings about institutions. In addition, Soifer unpacks Mann's concept of infrastructural power distinguishing between three aspects: 'capabilities of the central state', 'territorial reach of the state', and 'effects of the state on society' (2008, 231).

In sum, in *The Autonomous Power of the State: Its Origins, Mechanisms, and Results*, Mann is analyzing the relationship between the state and society within a territory. Mann argues (1993, 59) that “infrastructural power is a two-way street” and that society has ways of controlling the state. However, we can say that his theory is more state oriented, focusing on exploring origins and reach of the state power. More than 20 years later, after the original essay, Mann revisits his concept of ‘infrastructural power’ clarifying himself that his research is indeed more focused on political power³ relations than social life in general (2008, 358). In other words, Mann explores “the sources of state autonomy from civil society” (Mann 2008, 355) and degree to which state power is exerted. Mann goes further and modifies the previous definitions of ‘bureaucratic’ and ‘authoritarian’ types to better capture today’s states. Mann clarifies that bureaucratic implies not only power that is “radiating outwards from the state” but also the power of society “radiating inward to the state” (2008, 356). He argues that the combination of low despotic power and high infrastructural power is not necessarily found exclusively in bureaucracies, and it can be present in similar form in the ‘authoritarian type’. High infrastructural power coupled with low despotic power is a combination prevalent in all modern states. Due to the high competition of interest groups in institutionalized settings a state has the ability to mobilize citizens and, in this way, “legitimate infrastructures” (2008, 356). Mann argues that better label for this type would be ‘multiparty’ or ‘democracy’ and instead of ‘authoritarian’ he now uses the term ‘single party’. With the updated taxonomy, Mann broadens his theory of state characteristics by adding the

³ According to Mann, “political power is the territorially centralized regulation of social life. It is also authoritative and commanded, but it is willed from a center, confined to a defined territory, and wielded through highly institutionalized, routinized means (unlike military power)” (2008, 358).

relational dimension. However, he is still not inclined to use a concept of ‘society’ arguing it is difficult to distinguish a single entity we might call like that. Mann finds it to be “overlapping, intersecting networks of interaction that have different boundaries” (2008, 358). By reading Mann, we understand what infrastructural power is; however, what still remains vague is how to conceptualize and measure this term.

Soifer and vom Hau further explore the concept and measurement of Mann’s infrastructural power. They distinguish between “the ability of a state to penetrate its territories” from “the ability to implement decisions and put policy to work” (2008, 26). Soifer and vom Hau ‘unpack’ ‘infrastructural power’ focusing on conceptualization and measurement of Mann’s concept. The authors argue that state strength is crucial to achieve a certain level of development and human well-being. However, what remains vague are the dimensions of state capacity. Soifer and vom Hau (2008, 24) distinguish between bureaucratic professionalism and infrastructural power, arguing both are encompassed in state capacity with causal effect between them as they reinforce each other. According to the authors, infrastructural power is necessary for bureaucracy to function effectively. They argue that Mann’s infrastructural power is drawing on both Marx and Weber, but leaning more towards Weber. In his analysis of the state, Mann unpacks Weber’s state into three layers, political power being the base layer. “Fundamentally territorial, political power predated the origin of the institution of the state, and is protected by the application of force” (Soifer 2008, 234). The second layer is the state which as “the monopoly of legitimate force emerged over time and became layered over political power” (Soifer 2008, 234). Finally, the third layer is the modern state which according to Mann adds bureaucratic structure to the layers. Soifer (2008,

234) defines it as the “administrative form by which the monopoly of legitimate force over territory is administered”.

Essentially, both Mann’s infrastructural power and Weber’s concept of the state through three layers speak to state capacity. Giraudy and Luna (2017) are also exploring state capacity. They use the term ‘state territorial reach’ (STR) defined as an “intrinsically political and distributive outcome” from relations between state and ‘territorial challengers’ that can be either state or non-state actors (2017, 93). Giraudy and Luna draw on Mann’s concepts when making the assumption that the state’s control is not absolute, and as such can be challenged. State territorial reach increases when the state has more resources relative to challengers to control the periphery. However, there are cases when territorial challengers have more power to neutralize the state’s control. Giraudy and Luna use cross national analysis to test state reach by using electrification coverage as a proxy. Most advanced (industrialized countries) were the ones with the highest overall electrification rates and lowest variability in coverage within a territory. They found that African countries had the lowest electrification rates and high variability in the coverage over territory. Finally, in Latin American and East European countries, there was high overall electrification rate but also high variability of coverage within territory.

Much of the literature covered so far talks about state capacity. State capacity should not be mistaken for regime. According to Skocpol, state capacity involves “ability to implement official goals, especially over the actual or potential opposition of powerful social groups” (Skocpol 1985, 9). On the other hand, regime is a form of power distribution, meaning whether power is more concentrated (dictatorship) or dispersed

(democracy). Knutsen (2012) explores the interaction between state capacity and regime type in affecting economic growth. He found that there is a higher effect of democracy on economic growth in weak state-capacity countries such as Sub Saharan Africa. He found that more democratic African countries grow faster than those who are not democratic. However, Knutsen did not find that democracy has the positive impact on economic growth in high state capacity countries. He also found that state capacity has positive impact on growth only in the case of dictatorship. On one hand, dictators can benefit from an informal environment that enables longer survival. On the other hand, if there are security threats he may benefit more from a stronger state.

Although dictatorial regimes can be extremely efficient in terms of economic growth, Gupta et al. propose that this is only for a short time as non-democratic regimes “ultimately clash with the rising aspirations of the people, especially the middle class” (1998, 594). They found that democracy is more conducive to economic growth in the long run. Economists find that democracy encourages economic growth because it secures property rights and provides incentives for innovation. Drawing on Huber et al. (1993), Gupta et al. define democracy in theoretical terms consisting of three features: “regular free and fair elections of representatives on the basis of universal suffrage; responsibility of the state apparatus to the elected representatives and guarantees of freedom of expression and association” (1998, 593). However, they point out that while theoretically there is some consensus what democracy is, empirical definitions vary. Gupta et al. conclude that “in order to account for growth differential, we must look for a country’s policies toward education, foreign trade, land reform, and government intervention in the economic growth process” (1998, 608).

While it is clear that democracy influences development, it is unclear what democracy looks like and why some countries are more prone to democratization than others. Middle class reform happened in some countries while not in others. According to Fukuyama (2013) there are three reasons for this: nature of economic development, cultural difference and leadership factors. The nature of economic development is different across countries. Countries such as Italy and Greece experienced “modernization without development” where people were simply moved to the city but kept all habits, as opposed to classic industrialization in Britain and the USA where workers were moved from agriculture into urban places and changed their overall lifestyles. Middle class rise was more prevalent in Protestant environments such as Germany, USA and Britain. Lastly, when it comes to leadership, Fukuyama gives the example of how leadership style can negatively impact development. This happens when a leader pursues self-interest at the cost of the public welfare by deceiving people with populist narratives. These factors can distinguish between democracies and non-democracies; however, there are also many visible differences even within democracies. Mukand and Rodrik (2019) talk about a growing number of countries, classified as democracies, in which many of people’s rights are being infringed. The authors suggest that this is because of a common mistake in defining democracy which is that rights are often bundled together.

Mukand and Rodrik (2019) distinguish between three types of rights: property, political and civil. By protecting asset holders, property rights shield the wealthy. Guarantying free and fair elections, political rights benefit the majority. And providing equality before the law, civil rights safeguard minorities. In a personal dictatorship or

anarchy none of the rights is protected. In electoral democracies, property and political rights are protected; however, liberal rights are not protected, which makes these democracies illiberal democracies. They are most common in developing world, such as Brazil or Turkey. Mukand and Rodrik (2019) suggest that it is very difficult to keep democracy in countries where there is cultural or ideological heterogeneity. Authors suggest that “ethnic, religious and linguistic identities are at the heart of political conflict and violence throughout the developing world” (2019, 34). However, uneven property distribution is probably the most common cause of factions. When discussing factions in *The Federalist No. 10*, Madison (2009) argues that minimizing damages of factions would require the state to either homogenize society or take away civil liberties. Both of these is contra liberal values. Madison suggests that the best solution is to control for the effects of factions: “inference to which we are brought is, that the *causes* of faction cannot be removed, and that relief is only to be sought in the means of controlling its *effects*” (2009, 50). Due to cleavages on either economic or identity grounds, civil rights are difficult to ensure which means it is very challenging to form a liberal democracy.

According to Mukand and Rodrik, “liberal democracy requires quite special circumstances: mild levels of income inequality as well as weak identity cleavages” (2019, 4). They suggest that what needs to be in place in order for liberal democracy to form is that “the population has been sufficiently homogenized due to industrialisation or policies of nation building” (2019, 32). Mukand and Rodrik argue that it is possible for a liberal democracy to organically arise. This happened in countries that had no cleavages such as Japan, South Korea, Taiwan and Sweden. Considering how challenging it is to have all these conditions in place for liberal democracy to occur, some settle for electoral

democracy as the second best. Most contemporary democracies are electoral democracies. Fukuyama (2015) defines modern liberal democracy as having three institutions: the state which ‘generates and employs power’, rule of law and democratic accountability which constrains power. If the state does not have the rule of law and democratic accountability, it is dictatorship, and in turn if there is no power of the state while the other two exist, it is anarchy. According to Fukuyama there are two stages in creating a viable democracy: “the organization of social movements into political parties that can contest elections” and “state-building and state capacity” (2015, 19). While exploring why performance of world democracies has been disappointing, he finds the problem in failure of institutionalization, “the fact that state capacity in many new and existing democracies has not kept pace with popular demands for democratic accountability” (2015, 12).

Most definitions of democracy talk about protection of rights of different cleavages within society. However, such definitions are founded on the assumption that the state is in the superior position as a sort of ‘patron’. What is missing here is a concept that would capture a more balanced relation between state and society. While looking for a term that would capture state to society power balance, I found part of my answer in the work of Acemoglu and Robinson. In *The Emergence of Weak, Despotism and Inclusive States* (2017) that focuses on the state-society relation, Acemoglu and Robinson are trying to explain what drives the institutional change and how state capacity emerges. They explain the dynamics of state-society relations. According to them, this is the game of competition; a strong state is only possible when the society is strong because they reinforce each other. Although, the state wants to dominate, the society can strengthen its

position through coordination, social norms and local organization. In this competition, the society makes the state want to be even stronger, because the more evenly they are matched, the greater the need to invest more to continue competing on a level playing field. Acemoglu and Robinson use the terms state and elite interchangeably as they consider that the state is controlled by elites that act in a coordinated manner. They argue that the strength of the state will determine its capacity to regulate society and fulfill functions such as collecting tax revenues and establishing a monopoly of violence. According to their theory, there are two extreme cases: the despotic state where a state has acquired more strength than society and a weak state where society dominates. In the third case, the power between the two is balanced. In this case, the state is considered to have the most capacity, as the society and the state both have high strength.

As opposed to Mann (1984) who views everything through the lens of the state, Acemoglu and Robinson (2017) use a more balanced approach to state-society relations, they add the 'character' to the society. However, this perspective by Acemoglu and Robinson is oriented towards the origins of state capacity and power relations between the state and the society, but does not tell much about the quality of the institutions. However, they wrote more on institutions and how they determine nations' prosperity in their earlier work, the provocative book, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (2012). Acemoglu and Robinson distinguish between extractive and inclusive institutions, saying that only inclusive political institutions allow a nation to live up to its capacity. The polities they classify as extractive are the ones where the state elite has few constraints on the exercise of its power, which allows them to make great wealth by expropriating the assets of others. Due to the fact that elite is enriched at the

expense of society, extractive institutions create great inequalities that can even lead to state failure. One may think that extractive institutions are specific mostly to African countries such as Zimbabwe and Sierra Leone. However, extractive institutions are widespread, some of the examples being Guatemala and Venezuela in Latin America, North Korea and Uzbekistan in Asia, and Egypt in Middle East. The example of extractive institutions can be seen in Guatemala where the same elite has been in power from colonial rule and throughout independence (over 4 centuries).

At some point in time, now developed countries also had extractive institutions, so one must ask oneself are the extractive institutions that bad? According to Acemoglu and Robinson growth generated by extractive institutions is not sustainable because it does not foster creative destruction and generates limited technological progress (e.g. Soviet Russia) or in the case of weaker states creates incentives for infighting and instability (e.g. Mayan city-states). Acemoglu and Robinson argue that extractive institutions can be overthrown; however, it does not happen automatically or easily. A critical juncture is necessary to create the window of opportunity, but this does not mean it will necessarily result in a successful political revolution. For example, post colonialist governments of many sub-Saharan Africa and Asian countries continued in the footsteps of their predecessors. Michels (1962) calls this replacement of one tyranny with another, the iron law of oligarchy, “often severely narrowing the distribution of political power, dismantling constraints, and undermining the already meager incentives that economic institutions provided for investment and economic progress” (as cited in Acemoglu and Robinson 2012, 126-127).

Even if a country is in the ‘chains’ of extractive institutions, this does not mean this country has no potential for prosperity. There are a few countries, Botswana being one of them, which took a different path after the critical juncture and embraced the political and economic change that later brought on economic growth. Another example of the critical juncture is the Glorious Revolution of 1688, which served as the great step toward inclusive institutions in England (2012, 119). Acemoglu and Robinson argue that due to the mutual support between extractive political and economic institutions and their synergetic relationship, there needs to be a critical juncture that will break this ‘vicious circle’ resulting from the “persistence of the feedback loop” (2012, 121). According to them the vicious circle and the iron law of oligarchy enable the persistence of the extractive institutions. However, once in place inclusive political institutions also have a feedback loop, this is called a virtuous circle, which reinforces development. How does a virtuous circle work? When the elites in power are weakened, a broad coalition against absolutism is empowered and there are incentives for the formation of pluralistic society. When pluralistic political institutions are in place, it is much more difficult for any individual to usurp the power. Another mechanism of the virtuous circle is the synergetic relationship between inclusive political and economic institutions.

In summary, the institutional setting is not as given and can be changed. South Korea broke the chains of dictatorship. The two Koreas started at the same place; however, due to choosing different institutional paths, South Korea and North Korea are currently at very different places. Acemoglu and Robinson illustrate the dramatic difference in development between the Koreas by showing their respective electricity coverage from satellite images. South Korea is “blazing with light” while North Korea is

“almost completely dark” (2012, 71). Unlike its Southern neighbor, North Korea is still led by extractive institutions. “Transforming the state from problem to solution must be a central item on any realistic Third World policy agenda” (Evans 1992, 415).

2.2: Theoretical Framework

In the first section, you read arguments on how institutions are the primary reason some countries are more successful than others. Perhaps the most striking argument was that from a practitioner. After extensive fieldwork in the poor countries, Easterly (2001) realized that economic theories can only explain so much. In trying to implement what those theories propose, he found little success on the ground. The aid never helped the poor. This is not to say that the economics was at fault but rather because there were always practical issues in implementing decisions. Easterly argues that if only there were right policies and if only there were right incentives for everyone, the poor would be able to efficiently use the aid and escape their curse of poverty. Before I write my hypotheses, I will recall the most relevant arguments from literature on which my theoretical framework is based.

In exploring why institutions in poor countries inhibit development, Acemoglu and Robinson (2012) use the extractive and inclusive concepts to describe the nature of institutions. Extractive and inclusive institutions still provide only a vague image of ‘the bad’ and ‘the good’ without offering a fuller understanding of how the institutions affect their performance. However, in 2017, they explore the issue of state-society relations based on Mann’s (1984) concepts of the origins of state power, which although

seemingly another issue, is actually complementary to their research on inclusive institutions. By using Mann's concept of 'infrastructural power', they are trying to further explain the concept of inclusiveness of the institutions and to reinforce their previous conclusion that this is the most favorable setting from which the state should have to experience sustainable development. Although I agree that in explaining institutions, one cannot escape from any of these concepts, I argue that there needs to be a more precise definition of the dimensions of institutions. Acemoglu and Robinson do not make a clear-cut distinction between different dimensions of the state's power as Mann does with his classification based on 'functionality' and 'institutionality' which in my opinion is a more systematic way to approach this issue.

Acemoglu and Robinson (2017) when reintroducing the term 'infrastructural power' use it to support their thesis of the superiority of the inclusive states. According to them, an inclusive state provides the most favorable conditions for development as the power between the state and society is more evenly balanced. On one hand, the elite will invest in its 'infrastructural power' and on the other hand, society will invest in its power as a defensive act to even the playing field. They say that the nature of states and societies differ greatly across the world. In particular, states differ in their capacity to "fulfill basic functions, such as raise tax revenues, establish a monopoly of violence or effectively regulate society" (42). Also, they argue "states endogenously acquire capacity in a dynamic contest with society" (42). Basically, Acemoglu and Robinson are saying that the state's capacity, they call 'strength,' emerges from this competition. Accordingly, when both the state and society acquire high levels of strength, the authors refer to it as 'inclusive' and this is where the state has the most capacity. In sum, the capacity of the

state emerges from the state-society contest, and the best outcome is when both state and society are strong. Although Acemoglu and Robinson refer to Mann's concepts when explaining this, I find it not entirely consistent with some of Mann's ideas.

Mann (1984) does not use these concepts as mutually reinforcing, but rather separates them as two dimensions in which the state can be powerful ('despotic power' and 'infrastructural power'). Because of this clear distinction between 'functionality' and 'institutionality', I am closer to using Mann's theory as the base reference. However, the way that Mann describes both of these dimensions is not fully applicable in today's world. For example, he suggests that the exemplification of high infrastructural power and low despotic power would be contemporary democracies, which is too vague a description considering how many different manifestations of democracy we have and considering that most of today's countries would be classified as such. Also, Mann's view from the state lens of the state-society relationship is not as applicable in today's world. This is where I would lean towards Acemoglu and Robinson's more balanced view of state-society relations where they look at the contest not purely from the state perspective but recognize the importance of the society. Without the strength of both actors (state and society), one side will dominate and there will not be the need for a contest between the uneven competitors, and neither will be induced to invest more. Without the dynamics of competition, what persists is the status quo.

In my research, I will bring this literature together by revisiting and redefining these concepts to add more clarity in defining institutions. Motivation behind my research was the great gap that exists between the rich and the poor countries across the world. I want to examine why some nations are continuously rich and others chronically poor without

positive outlooks for the future. I argue that nations that have been poor for a long time are poor because of the weak institutional setting that locked them into this stage of development. Hence, the institutions determine the development of a nation. Inspired by Mann's 'functionality' and 'institutionality' classification of the state, adjusted by Acemoglu and Robinson's balanced view on state-society relations, I will construct a model that aims to explain why the institutional settings of countries make them perform differently. I distinguish between two dimensions of the institutional setting:

- **Infrastructural power:** exercise and reach of state power
- **Inclusiveness:** state to society power balance.

Infrastructural power is about the functionality and effectiveness of the state to exercise its power within the society. This involves the capacity and the ability of the state to actually enforce the policies within its territory without resistance from the society. This dimension determines if the state manages to reach all points of the society when implementing decisions. Infrastructural power is a crucial aspect for any country, as the inability to enforce policies or keep stability within its territory can lead to state failure. Hence, strong infrastructural power is a necessary aspect for a country to function as a polity. Effective enforcement of policies and reach of the state to all points within its territory creates a stable and fruitful environment for economic activity. Effectiveness in functioning results in improved performance.

The second dimension, inclusiveness, involves the balance of power between the state and the society. Can the society limit the state's autonomy of power; what input

does the society have in the state's decision-making? The idea behind this concept is to see how much strength and bargaining power society has to restrain autonomous decision making by the state. This aspect is necessary for a country to consider more interests in policymaking and in the distribution of national income. Hence, I argue that the power balance between state and society will determine the distribution of income across the country and investment in human capital. As long as the power is held in the hands of the few, there will be no prosperity for the many, because of the self-interested tendencies mentioned by North (1990). When talking about inclusiveness, I will take a more even approach by accounting for perspectives of both actors in this relationship: state and society. From the state perspective, is there information asymmetry and lack of transparency in what the state does and hence hindering actions by society? From the society perspective, what can it do to limit the state's autonomous decision-making?

My purpose behind analyzing these institutional dimensions is to explore how they affect performance of a country. What explains the difference in the performance of the world's nations? Why do some succeed, and others fail? Although much of the literature speaks of the importance of institutional factors, the scope of the term and its measure is still unclear, and hence its relationship with a nation's performance. I argue that countries perform differently because of their institutional setting which has two dimensions: infrastructural power and inclusiveness. Earlier, I mentioned how each of the two dimensions influences performance of a country; however, no country is one dimensional. Together, these two dimensions make up the institutional setting of a country where each dimension has a different effect on different aspects of performance.

In sum, infrastructural power looks at how decisions within society are implemented, and with what effectiveness does the state exercise its authority throughout the society. Alternatively, inclusiveness looks at who makes the decisions within the country. In the power relationship between state and society who has the ‘longer end of the rope’. Performance outcomes will be measured multi-dimensionally as I do not think that any single indicator fully demonstrates how a nation performs. Hence, I will explore how infrastructural power and inclusiveness affect three performance indicators:

- Economic growth
- Income distribution
- Human development

Considering these two institutional dimensions and the three performance indicators, I offer the following hypotheses:

Hypothesis 1: Countries with more Infrastructural Power should have higher levels of Economic Growth, all else held constant.⁴

Hypothesis 2: Countries with higher levels of Inclusiveness should have more equal Income Distributions, all else held constant.

Hypothesis 3: Countries with higher levels of Inclusiveness should have higher levels of Human Capital Development, all else held constant.

I expect that a country with strong infrastructural power will exhibit higher economic growth than a country with weak infrastructural power holding everything else

⁴ I expect that Inclusiveness will have no impact on Economic Growth. Also, I expect that Infrastructural Power will have no impact on Income Distribution and Human Capital Development.

constant. This is because in such country, the state is effectively exercising power, reaching all parts of society within its territory, and creating a fruitful environment for economic activity which is an end in itself. Infrastructural power is merely about institutional effectiveness in terms of the exercise and reach of the government. Overall, a country with strong infrastructural power all else held constant, will have a state that effectively enforces policies. A functional and stable environment with effective exercise of power by the state gives rise to economic effectiveness.

On the other hand, I expect that a country with high inclusiveness will have higher human development and lower income inequality than a country with low inclusiveness, all else held constant. It is concerned more with power balance between state and society. State is not the only decision maker in a country and there are more interests to consider, power between state and society is more balanced. The economic activity becomes a means rather than an end in itself. The income generated is serving more interests in a country. This means that society has a role to play and bargaining power to demand more equitable income distribution and improvement in the well-being of people. A focus of inclusiveness goes beyond merely accumulating national income, to distributing this income and turning it into social capital. Only in a highly inclusive country does the society have the bargaining power and the state the incentive to improve the social welfare.

In sum, infrastructural power is necessary for a country not to fail and provide economic growth. However, infrastructural power per se cannot stimulate socially oriented policies. For socially oriented policies there needs to be high inclusiveness, meaning a power balance between state and society, where society will have higher

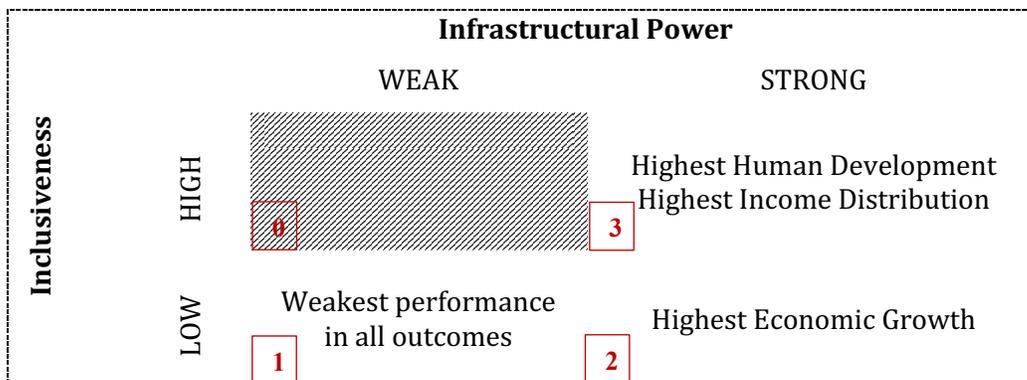
bargaining power to ask for its ‘piece of the pie’. However, looking at the two institutional dimensions separately cannot fully explain how a country performs. Each country has the institutional setting that consists of both dimensions, infrastructural power and inclusiveness. This means that we need to look how a country scores on each dimension in order to get a full picture of institutions in that country. I expect that distinct institutional settings consisting of the two dimensions will bring different performance outcomes and determine the success or failure of a nation. This means that degree of both dimensions will distinguish how a nation performs in terms of economic growth, income distribution and human development. In order to understand the institutional setting better and explore how it affects the performance of a country, I created an Institutional Matrix. Each dimension has two possible values, infrastructural power can be strong or weak, and inclusiveness can be high or low. The matrix can be seen in Table 2.2.1, and combines values of the two dimensions producing four quadrants:

- In the zero quadrant, infrastructural power is weak, and inclusiveness is high.
- In the first quadrant, infrastructural power is weak, and inclusiveness is low.
- In the second quadrant, infrastructural power is strong, and inclusiveness is low.
- In the third quadrant, infrastructural power is strong, and inclusiveness is high.

I argue that it is necessary for a country to have a strong level of infrastructural power in order to function effectively. I assert that where there is no functional country (low infrastructural power), there can be no inclusiveness. Hence, there is no institutional setting where a state cannot exercise power nor have reach within territory and at the

same time have balanced distribution of power. Hence, I argue that ‘the zero quadrant’ is a null set. I argue that the institutional setting is not given nor fixed, rather it is an evolving concept. The institutional setting of a country is a stage in its maturity. My argument is that a country needs to pass through all stages of the institutional matrix before reaching the most favorable stage, which is the third stage. The ‘first quadrant’ countries are the least mature ones. These countries are not strong on either of the institutional dimensions and this reflects poorly on their performance. The ‘second quadrant’ countries are in the middle, they have achieved strong infrastructural power; however, they are still low in terms of inclusiveness. Strong infrastructural power implies the high capacity of the state to implement its decisions within its territory. This is manifested through more robust economic activity. However, these countries have not yet reached a maturity level to consider the distribution of national income or investment in the social welfare. For the socially aware nation, inclusiveness is a necessary condition. High inclusiveness implies more balanced power between state and society. Only in a country where there is a balance of power, can we speak of sustainable development. Expected performances by quadrant can be seen in Table 2.2.1.

Table 2.2.1: Institutional Matrix and the socio-economic performance



I am assuming that a country's present performance is the outcome of the accumulated developments over the past years and that the differences in the current situations are the result of different institutional paths countries followed (path dependency). The first two stages should be transition stages for a country before reaching the third quadrant. If a country remains in the first quadrant for a long time, there is a likelihood such a country will fail. To function, a country needs to reach a certain level of infrastructural power. Hence, I assume that most countries will reach this point. Being merely a measure of functionality and stability, infrastructural power is a basic requirement for a country. I expect that most countries are functional and stable in today's world. What distinguishes between countries more is their level of inclusiveness. The second and third quadrant both have high infrastructural power, but differ in terms of inclusiveness. In the second quadrant, a country is functional and effective and produces a high level of economic activity. However, I think there is a great risk for a country to 'get stuck' in the second quadrant for a long time due to high potential for the government abusing its power. In the 'second quadrant' country, the state can overextend its reach to coerce. The second quadrant should be a transition stage, if a country remains there for a long time, there is a threat of authoritarianism. When not coupled with inclusiveness, there is a likelihood that a country which accumulated strong infrastructural power without being balanced by societal power can become authoritarian. As mentioned, the institutional setting is evolving, hence, the process is also reversible. There is no 'safety' for countries that have reached the third quadrant, there is always the possibility of backsliding if the dimensions worsen.

CHAPTER 3: DATA AND CROSS-SECTIONAL ANALYSIS

3.1: Data

The purpose of this study is to explain the effects of a country's institutional setting on three indicators of socio-economic performance: economic growth, income distribution, and human capital development. In order to do that, I will use the cross-section analysis on a sample of 161 contemporary countries for which data is available for both institutional indices⁵. This will provide the snapshot of the current performance of countries across the world. I argue that the institutional setting determines the socio-economic performance of a country. I argue that infrastructural power as a measure of functionality and effectiveness of the state will determine economic activity of a country. On the other hand, as a measure of the power distribution between state and society, inclusiveness will determine how the income of a country is distributed and how much is invested in human capital. Hence, in order to explain the differences in the levels of socio-economic performance indicators I will use two institutional indices: Infrastructural Power Index and Inclusiveness Index. I am assuming that present performances are outcomes of the accumulated developments over the past years and that the differences in the current situations are the result of different paths countries followed.

Dependent variables

⁵ Originally, I used a sample of 163 countries; however, Israel and Cyprus were outliers, and as such were excluded from cross section analysis. Both countries showed as having weak Infrastructural Power Index but high Inclusiveness ('the zero quadrant' countries) which is theoretically impossible (recall Chapter 2.2). These countries are among the weakest countries in terms of functionality and effectiveness of the reach of the state. Yet, according to the data, they seem inclusive. According to theory, a country needs to be functional in the first place, and inclusiveness is aspect possible only in the later stages of development. Hence, these countries were removed from the analysis.

The main aim of my research is to explore the key determinants of socio-economic development. As development is multifaceted, there will be three models, each with a different dependent variable:

- 1) Economic Growth
- 2) Income Distribution
- 3) Human Capital Development.

Each of these dependent variables measures some dimension of socio-economic development in a country. The term, socio-economic development, is very broad and as such should not be oversimplified nor over-looked by taking only one perspective. A country can score exceedingly well on one dimension of development, such as economic growth, but do very badly in distributing the income within the society or investing in proper health and education to increase the well-being of its people.

Countries across the globe differ greatly in terms of socio-economic development and score differently on each of the three dimensions. The goal of this research is to map out those differences and to get better insight into what are the underlying factors causing them. In order to capture a more holistic image of the key determinants of socio-economic development, I decided to explore three models. By approaching this issue multi-dimensionally, I can get insight not only in how wealthy a country is, but also how it uses that wealth. Looking at Economic Growth, we will find out the pace by which a country is increasing its aggregate income. However, this will not tell where this income is being spent. Is it in the hands of the few or more equally distributed within society? This will be covered in the second model with Income Distribution as the dependent variable. And lastly, how is the income of a country being invested to improve the well-

being of the society. This will be covered in the third model with Human Capital Development as the dependent variable.

1) Economic Growth

One of the most common measures of the economic activity in a country is gross domestic product (GDP). Real GDP is predominantly used to measure of changes in economic activity as it is adjusted for inflation. According to the International Monetary Fund (IMF 2019), “GDP represents the total value at constant prices of final goods and services produced within a country during a specified time period, such as one year.” However, according to Feenstra et al. (2013), Real GDP is not the best way to measure change in the economic activity of a country over years as it accounts for other countries’ spending patterns when accessing a country’s economic performance over time. Real GDP is “estimated using information on spending patterns across all countries” and “a country’s spending pattern is the result of its own preferences and relative prices” (2013, 25). Feenstra et al. argue that for the most precise analysis of cross-country differences in terms of economic growth, we should look at changes in GDP in constant national prices derived from countries’ National Accounts (2013, 25). I used GDP at constant national 2011 prices from the Penn World Table, version 9.1 National Accounts data⁶ (Feenstra et al. 2015). To obtain Economic Growth dependent variable I calculated average annual economic growth rate over the last decade using 2007 as the base year and 2017 as the most recent year and present it in percentage values. Equation 3.1.1 shows how Economic Growth is obtained:

⁶ Missing data for South Sudan.

Equation 3.1.1: Economic Growth

$$\text{Economic Growth} = \{[(GDP_{17} - GDP_{07}) - 1]/10\} \times 100$$

Countries across the world differ significantly in the pace of economic growth. On the one hand, most of the developed countries have low and steady economic growth, most of the EU countries, UK, USA, and Canada did not experience annual growth in economic activity that surpasses on average 2%. For example, Canada and Sweden grew annually on average around 1.7%; the USA and Switzerland around 1.5%; the UK, Germany, and Norway around 1.2%; Belgium and Austria around 1%. The EU country that experienced the greatest decline in economic activity was Greece with average annual decline of 2.53%. Other EU countries with the average annual economic decline were Croatia (0.15%), Italy (0.52%) and Portugal (0.69%). On the other hand, most of the fastest growing countries are considered to be developing, with a significantly lower income base to begin with. The significant rise in their GDP can be attributed to the catch-up factor. The top 5 countries with the greatest average annual economic growth rate are presented in Table 3.1.1.

Table 3.1.1: Top 5 countries with the greatest economic growth rates

Country	Economic growth (%)
Ethiopia	16.83
Zimbabwe	16.53
Turkmenistan	14.78
Mali	13.48
China	12.10

Following these Top 5 are Myanmar (11.57%) Iraq (11.44%) and Qatar (11.24%).

Although it has not quite made the top 10, India was another rapidly growing economy, with the average annual economic growth around 8.91%. When considering the countries

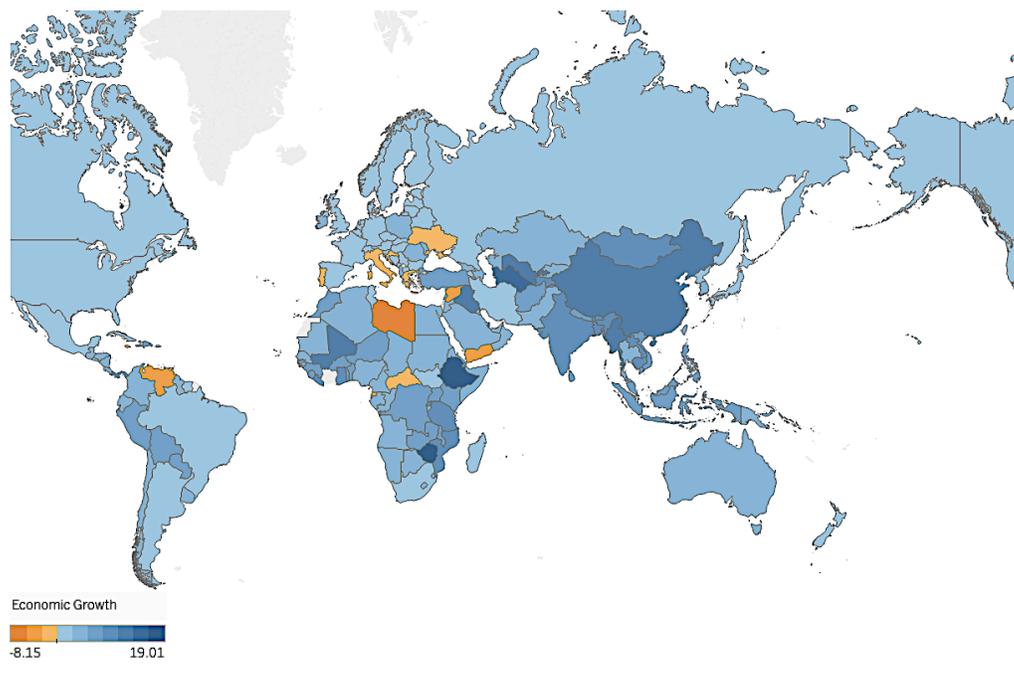
experiencing economic decline over the last decade, the top 5 countries in terms of greatest average annual decline are listed in Table 3.1.2. Especially striking is Libya that had average annual decline around 8%. Apart from the Top 5 countries, some of the other countries experiencing decline in the average annual economic activity include Ukraine, Central African Republic, and Jamaica.

Table 3.1.2: Top 5 countries with the greatest economic decline rates

Country	Economic decline (%)
Libya	8.15
Yemen	4.98
Syria	4.91
Venezuela	2.75
Greece	2.53

Economic Growth of countries across the world can be seen in the map⁷ in Figure 3.1.1.

Figure 3.1.1: Economic growth over the world



⁷ All maps are created using Tableau Desktop 2019.1 Software, with credit to ©OpenStreetMap contributors (<https://www.openstreetmap.org/copyright>).

2) Income Distribution

Looking at overall economic activity provides only one perspective on the socio-economic development of a nation. Another perspective is how that income is distributed within a nation. Is it being held in hands of the few or more equally distributed within society? Hence, the second dependent variable is the income distribution proxied by the Gini index. The UNDP collected data for the period 2010-2017 (UNDP 2019). The period 2010-2017 means that data for each country is within that period, depending on the most recent time for which data is available.

According to the World Bank (2019), “Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household.” In other words, Gini index measures the area between Lorenz curve and the line of perfect equality giving the inequality measure on a scale that ranges from 0 (perfect equality) to 100 (perfect inequality). This means, the higher Gini index, the higher inequality. It is important to mention that for some countries there is no information on income inequality. This is the most complete dataset, and there are still 24 countries without income distribution data, including Saudi Arabia, North Korea, Afghanistan, Libya, and Somalia⁸.

⁸ Other countries are Bahrain, Cambodia, Cuba, Equatorial Guinea, Eritrea, Guyana, Jamaica, New Zealand, Oman, Qatar, Singapore, Suriname, Swaziland, Taiwan, Trinidad and Tobago, Turkmenistan, and Uzbekistan.

When looking at the data, I noticed some great discrepancies in the performance of countries. I was interested in mapping out which countries are more unequal and to see if there is pattern there. Countries of the EU such as Germany (Gini index of 31.7), UK (33.2), and Sweden (29.2) are relatively better at distributing income more equally than other countries. Some non-EU countries that have low Gini index include South Korea (31.6), Japan (32.1), and Canada (34). Also, some of the former socialist countries have low Gini index values. For example, Azerbaijan that has the lowest Gini index at 16.6. Another two examples are Kyrgyzstan and Kazakhstan at close to 25 on the Gini index.

The country with the most unequal income distribution is South Africa with Gini coefficient at 63. Other countries with extremely high inequality are Namibia, Zambia, Brazil, Colombia. One of the fastest growing economies, China is not performing well in distributing income either. With Gini index at 42, China surpassed the United Nations' target level of 40⁹. The USA also surpassed this level with Gini index at 41.5. In Table 3.1.3, I show examples of countries and where they fall in terms of their Gini indices.

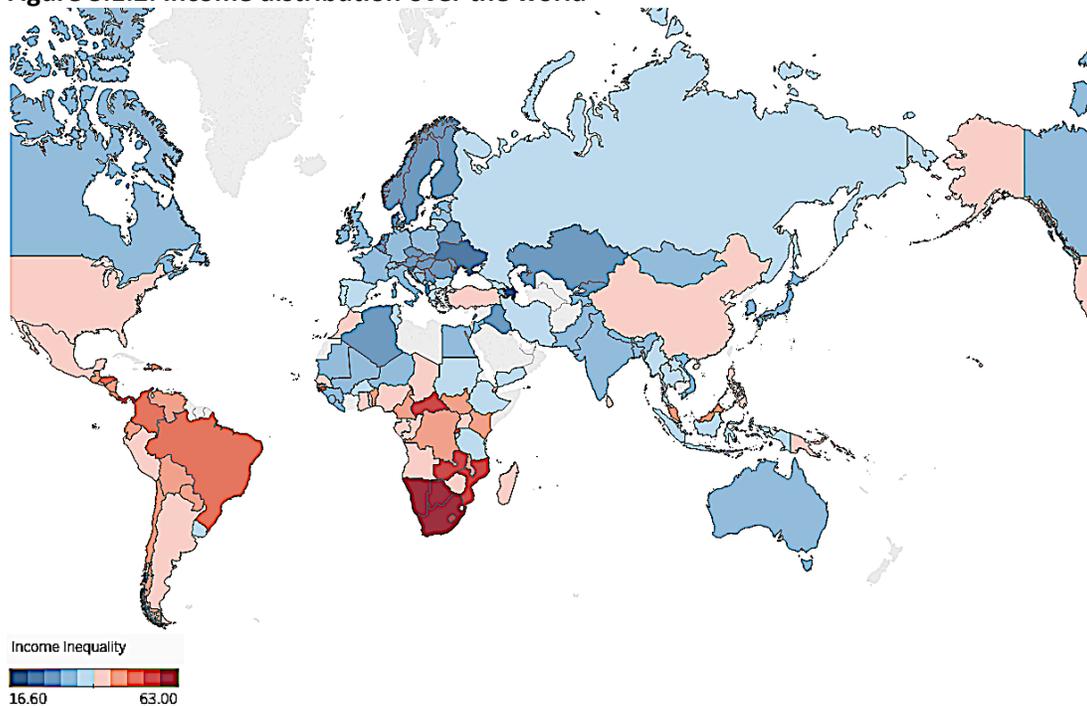
Table 3.1.3: Examples of countries at different levels of Gini index

Gini index	Country
< 20	Azerbaijan
20 - 29	Kyrgyzstan, Kazakhstan, Slovenia, Norway, Finland
30 - 39	Croatia, Germany, South Korea, Japan, Switzerland
40 - 49	USA, Turkey, China, Venezuela, Mexico
50 - 59	Colombia, Brazil, Central African Republic, Rwanda, Panama
60 - 69	South Africa, Namibia, Botswana

In Figure 3.1.2, you can see the spread of income distribution across the world.

⁹ The United Nations Research Institute for Social Development (UNRISD 2013).

Figure 3.1.2: Income distribution over the world



3) Human Capital Development

So far, I examined economic growth and income distribution perspectives of socio-economic development in countries across the world. However, neither describes the well-being of people in a country. Hence there is a need for the third dependent variable that would capture how people actually live. This variable is based on the Human Development Index (HDI), which is composed of health, education, and income indicators to account for the quality of life of the people. The United Nations Development Program (UNDP) publishes the HDI annually in the Human Development Report as “a summary measure of achievements in three key dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living” (UNDP 2018, 2).

Mahbub ul Haq created the HDI in 1990 to fill the gap in literature concerning how development of countries is measured. According to the HDI, there is much more to progress than national income (UNDP 2010). The HDI is based on the ideas of Nobel laureate Amartya Sen who views development through human capabilities. Amartya Sen's work captured the human capabilities of 'being' (food, shelter and safety) and 'doing' (education, work and social life) (Sen 1985). The rationale behind creating the HDI was to capture people's capabilities in assessing the development of a country instead of simply measuring the economic activity by GDP per capita. The index can ultimately help a government in deciding on policy priorities depending on the human development score achieved.

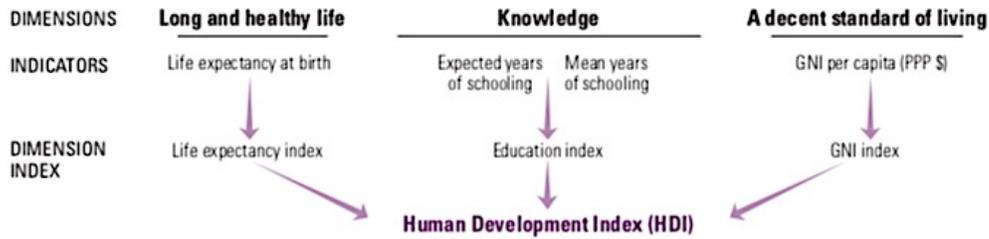
A long and healthy life is measured by life expectancy at birth; being knowledgeable by two indicators (mean of schooling years for adults aged 25 and above and expected schooling years for children of school entering age); and a decent standard of living by gross national income (GNI) per capita (UNDP 2018, 2). Three indicator (dimension) indices are individually compiled based on the UNDP's formula presented in Equation 3.1.2.

Equation 3.1.2: Dimension index (UNDP 2018, 2)

$$\text{Dimension index} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}}$$

Minimum and maximum values are pre-set by the UNDP and will be explored in detail later. Once these indicators are calculated, they are aggregated into a composite index, HDI, using a geometric mean as shown in Figure 3.1.3 and Equation 3.1.3:

Figure 3.1.3: Outline of the HDI (UNDP 2018, 1)

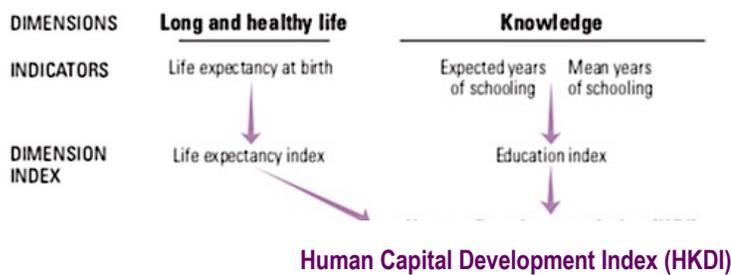


Equation 3.1.3: Composite index (UNDP 2018, 2)

$$HDI = (I_{Health} \cdot I_{Education} \cdot I_{Income})^{1/3}$$

Since one of my dependent variables already captures the economic dimension, I decided to modify the original UNDP’s Human Development Index to include only health and education to describe human development. I call this new index Human Capital Development Index (HKDI) as it is compiled of health and education indicators that together make up human capital. Composition of HKDI can be seen in Figure 3.1.4.

Figure 3.1.4: Outline of the HKDI (modified version of UNDP’s HDI)



In the original dataset for the year 2017¹⁰, total HDI and every indicator were listed, so I used the equation and pre-set values from the Technical Notes (UNDP 2018) to calculate Health and Education Dimensions and finally the composite, Human Capital

¹⁰ Missing data for the following countries: North Korea, Somalia and Taiwan (UNDP 2018).

Development Index (HKDI). The UNDP provides the formula for the Health index based on life expectancy at birth, as you can see in Equation 3.1.4.

Equation 3.1.4: Health (Dimension) Index (UNDP 2018)

$$\text{Health index} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}} = \frac{\text{actual value} - 20}{85 - 20}$$

The minimum value for life expectancy is set at 20 years based on the historical evidence of world countries in the 20th century (Maddison, 2010; Oeppen and Vaupel, 2002; Riley, 2005 as cited in Technical notes, UNDP 2018, 2). Due to the improved living standards in the contemporary world, maximum life expectancy is set at 85 years (UNDP 2018, 2). The actual values are provided in UNDP’s reports that include statistics from national authorities. The UNDP uses expected years of schooling (Equation 3.1.5) and mean years of schooling (Equation 3.1.6) to compile the Education Index. Minimum formal education is set at 0 as a country can subsist without formal education and maximum expected education is set at 18, which is master’s degree in most countries.

Equation 3.1.5: Education indicator I (UNDP 2018)

$$\text{Expected years of schooling} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}} = \frac{\text{actual value} - 0}{18 - 0}$$

When it comes to the mean years of schooling, the maximum value is set at 15, which is the UNDP’s projected maximum value for year 2025 (UNDP 2018, 2).

Equation 3.1.6: Education indicator II (UNDP 2018)

$$\text{Mean years of schooling} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}} = \frac{\text{actual value} - 0}{15 - 0}$$

Once I measured each of the two indicators, I calculated their arithmetic mean to obtain the Education index based on UNDP’s formula as presented in Equation 3.1.7.

Equation 3.1.7: Education (dimension) index (UNDP 2018)

$$\text{Education index} = \frac{\text{expected years of schooling} + \text{mean years of schooling}}{2}$$

The last step to deriving HKDI is computing the geometric mean of the two-dimensional indices as shown in Equation 3.1.8. HKDI ranges on scale 0 (least) - 1 (most developed).

Equation 3.1.8: Composite index (modified UNDP's HDI)

$$\text{HKDI} = (I_{\text{Health}} \cdot I_{\text{Education}})^{1/2}$$

When I compared the original HDI and newly derived HKDI¹¹, which eliminated the economic dimension, I noticed some substantial differences in the rank-order of certain countries. These countries can be observed in the following two tables where the ranking on both indices is presented for comparison¹². In Table 3.1.4, there are 10 countries which rank significantly better on my newly derived composite index, HKDI compared to HDI. These are mostly former communist countries that were known for their egalitarian societies, which focused on satisfying basic human needs, education and health. These countries were not focused on fostering the free competitive markets but rather controlled the economic activity.

Table 3.1.4: Countries which rank significantly better on HKDI

Country	HDI	HKDI	Difference
Cuba	59	32	27
Kyrgyzstan	97	72	25
Ukraine	73	52	21
Georgia	58	38	20

¹¹ Correlation between HKDI and HDI is 0.98.

¹² Difference column represents difference in the rank between HDI and HKDI.

Tajikistan	103	86	17
Dem. Rep. Congo	145	129	16
Madagascar	131	16	15
Liberia	150	135	15
Jamaica	80	65	15
Armenia	68	53	15

In Table 3.1.5, there are 10 countries listed, those with the largest negative gap between HKDI and HDI. These are mostly petroleum rich countries that have very high per capita income but do not distribute the benefits over the society.

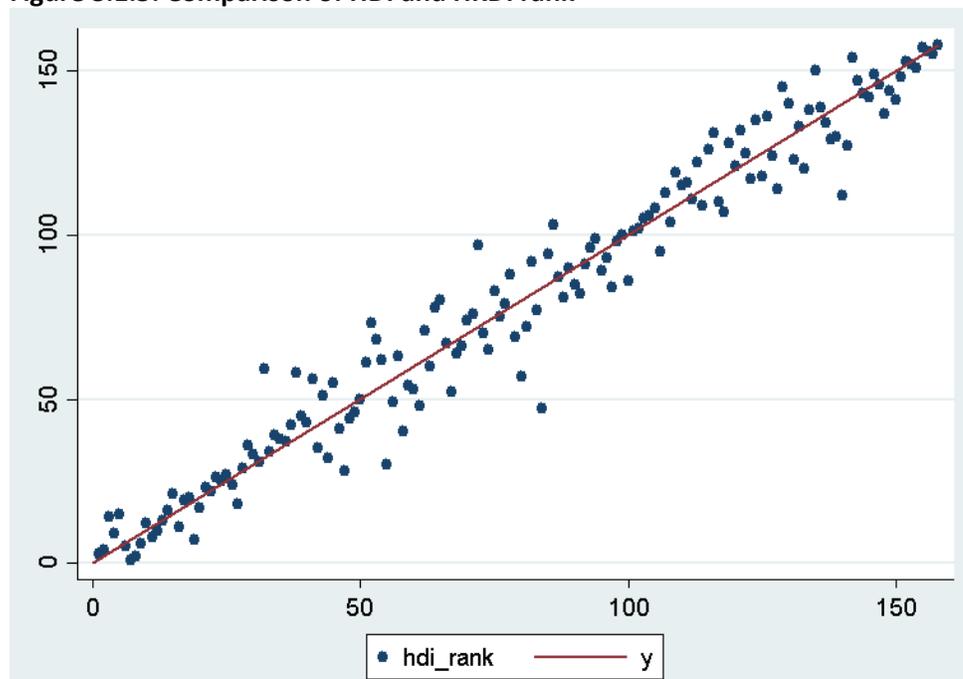
Table 3.1.5: Countries which rank significantly worse on HKDI

Country	HDI	HKDI	Difference
Kuwait	47	84	-37
Equatorial Guinea	112	140	-28
Qatar	30	55	-25
Trinidad and Tobago	57	80	-23
United Arab Emirates	28	47	-19
Oman	40	58	-18
Turkey	52	67	-15
Gabon	86	100	-14
Nigeria	127	141	-14
Swaziland	114	128	-14

According to the newly derived index that eliminated the income effect from the human development index, Australia (formerly ranked 3rd in HDI) is the most developed country in terms of providing the highest human capital standards. It is followed by Ireland (ranked 4th in HDI), New Zealand (ranked 14th in HDI), Denmark (ranked 9th in HDI) and Belgium (ranked 15th in HDI). In the case of the most developed countries, almost all countries that are in the top 20 of HDI rank appear also in the top 20 of HKDI

rank. Most of the least developed countries in HKDI were among the worst performing countries in HDI as well. The largest divergence between HDI and HKDI occurs in the countries that are not in the extreme high or low but rather closer to the middle. In Figure 3.1.5, we can see from the scatterplot showing how HKDI rank diverges from the rank on the original index, HDI, for each country. HDI rank is presented on y-axis and HKDI rank on x-axis. Below the 45-degree line are countries that rank better on HDI, and above the line are those that rank better on HKDI.

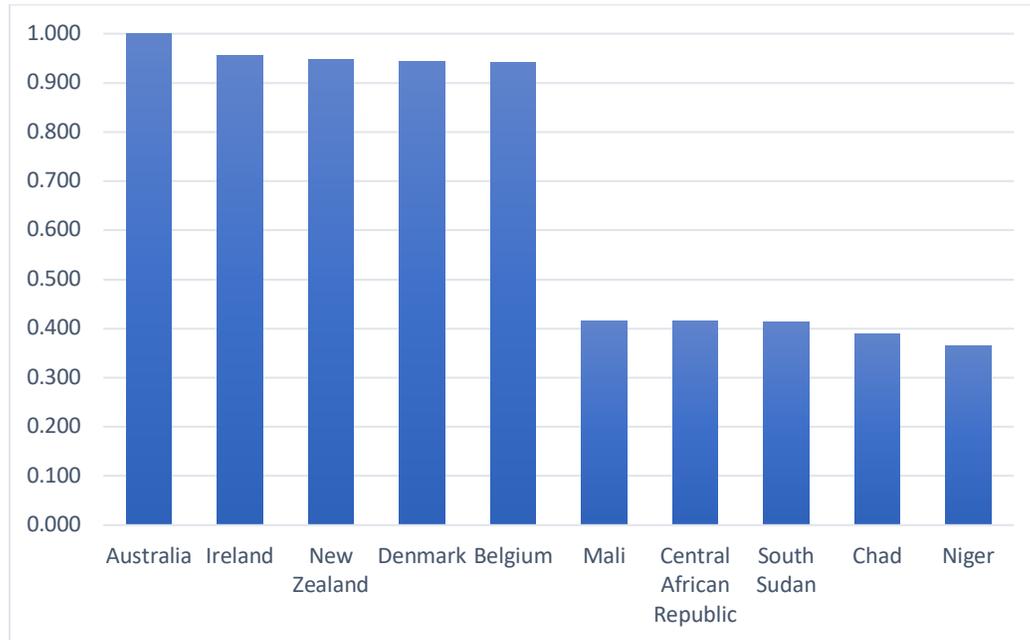
Figure 3.1.5: Comparison of HDI and HKDI rank



When it comes to comparing country to country solely on the HKDI score, we notice great differences between countries in terms of human capital. The difference between the most and least developed countries is more than 50%. Some of the least developed countries have HKDI below 0.45, while the most developed countries are above 0.93 points. In Figure 3.1.6, you can see the top five countries on both ends of the scale: the least and the most developed countries in terms of HKDI. Other countries that

have at least 0.9 points are USA, Canada, European Union countries such as Germany, UK, Netherlands, Finland, Sweden and Switzerland; and Asian countries such as South Korea, Japan and Singapore.

Figure 3.1.6: Top 5 and bottom 5 countries on HKDI scale



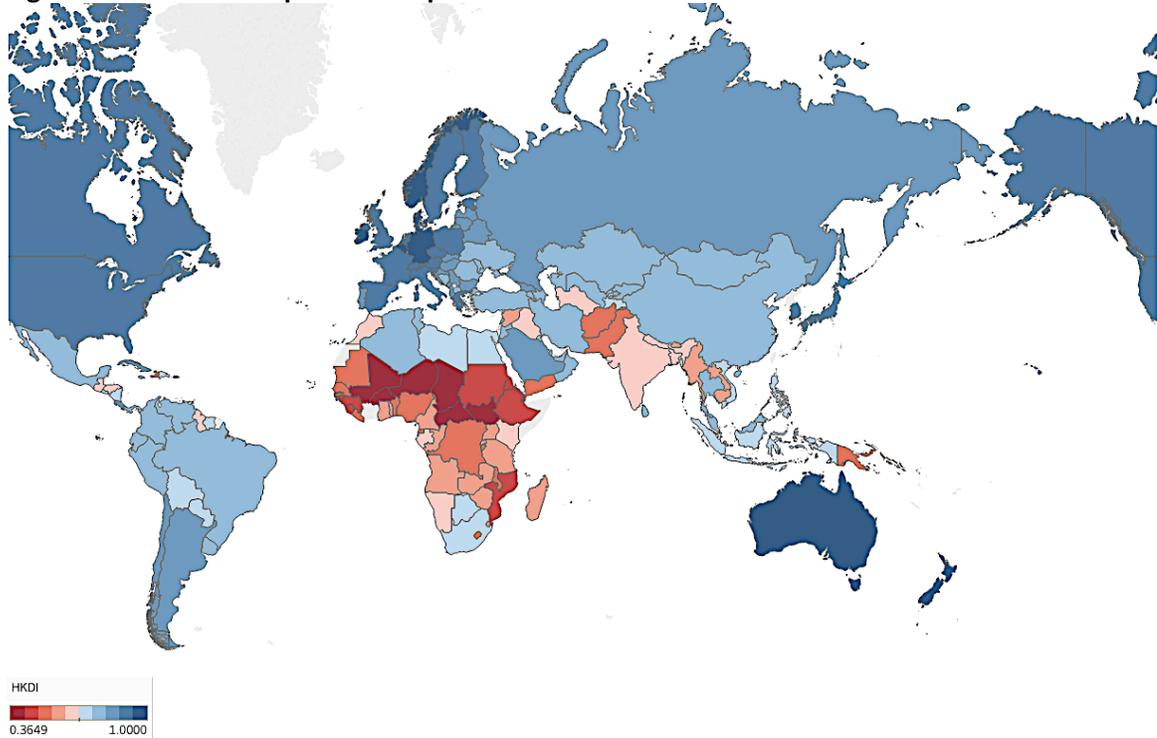
As Figure 3.1.6 presents only the two extremes on the HKDI scale. For more details on the countries that are found in between, refer to Table 3.1.6, and in order to see how HKDI varies across the world, refer to Figure 3.1.7.

Table 3.1.6: Examples of HKDI score ranges across countries

HKDI	Country
< 0.40	Niger, Chad
0.40 – 0.49	Ethiopia, Sudan, Mali, Eritrea, Central African Republic
0.50 – 0.59	Myanmar, Tanzania, Pakistan, Syria, Rwanda
0.60 – 0.69	India, Iraq, Kenya, Nepal, Ghana
0.70 – 0.79	Libya, Venezuela, Mexico, China, Turkey
0.80 – 0.89	Russia, Iran, Greece, Hungary, Chile
0.90 – 1	South Korea, Japan, USA, Norway, Australia

Human Capital Development index across the world can be seen in Figure 3.1.7.

Figure 3.1.7: Human capital development over the world



Independent variables

1) Infrastructural Power Index

Infrastructural power is a necessary condition for a country to exist as a functional polity. It refers to a nation's ability to function effectively in a stable societal environment and enforce authority within its territory. In other words, this means the reach of the state's power and its ability to consistently exercise its decisions. More closely, infrastructural power means the ability of a central government to maintain political stability without violent episodes while enforcing the laws within its territory.

To measure Infrastructural Power (IP) Index, I will use a composite index made of the following two dimensions:

- Polity Fragmentation
- Political Violence

Polity Fragmentation

The first component of the Infrastructural Power Index is Polity Fragmentation, which I use to measure the functionality of a central authority in a country. If a central authority cannot effectively exercise power over the entire territory of a country and there are various local authorities that act independently, then there is no functional government in power. Polity fragmentation negatively affects the ability of central government to effectively exercise its authority over the entire territory. In a fragmented environment, central authority becomes more limited in the enforcement of its policies, as there are significant portions of the country to which it does not have any access. Ranging from slightly to seriously fragmented, such lack of functionality in central government affects socio-economic conditions in a country. The extreme cases of non-functional polities where the central government is unable to exert its authority over separatist regions are called failed states.

The Polity Fragmentation measure is created by Center for Systemic Peace in the dataset¹³ collected for the Polity IV project. Although the project codes variables historically, this particular variable, Polity Fragmentation, is coded only from the year 2000. Using the polity as the unit of analysis, this dataset consists of variables investigating authority characteristics and changes in regimes in the contemporary world.

¹³ (Marshall et al. 2019)

In particular, polity fragmentation identifies the level to which there is a separate polity that comprises substantial territory and population within the recognized borders of a country and over which the central government of that country has no effective authority. The extreme case of state failure can happen when the polity cannot effectively exercise authority over at least half of its territory (Marshall et al. 2019, 12).

Some of the reasons why fragmentation happens in the first place may include unresolved issues that remain after open warfare or foreign occupation in the polity. Another trigger for fragmentation can be when various identity groups within a polity have antagonistic relations between each other. Although these groups could be integrated within the polity through pluralism, they can be mobilized as exclusive groups. Eventually, this can lead to factionalism, which can either take a dormant or latent form, or an active form. If it takes an active form, factionalism challenges the cohesion within the central polity. Although there is some overlap, we can distinguish between factionalism and fragmentation by analyzing the nature of relations between groups and the state. As opposed to factionalism that occurs within a polity's political arena, in fragmentation groups are operating outside this arena, directly opposing the state's authority. When unmanaged, factionalism can turn into fragmentation (Marshall et al. 2019, 3).

Polity IV distinguishes four levels of fragmentation where (0) stands for No overt fragmentation and (3) stands for the highest level of fragmentation called serious fragmentation. Nowadays, most of the world's countries are not fragmented at all, with only a few examples of the highest level of fragmentation. According to Marshall et al. (2019, 13), for a country to be coded as having the highest level of fragmentation, there

needs to be significant separation of local authority from the central authority regime (between 25% and 50%). For the time period 2009-2013, the only examples of seriously fragmented countries¹⁴ are Colombia, Bosnia and Herzegovina, Cyprus and Israel. In the examples of these countries, there is more than one polity within a single country.

In Bosnia and Herzegovina, the 1990s War ended by the Dayton Agreement, which created a politically divided and highly decentralized Bosnia and Herzegovina, where the central state has little power. Power is concentrated in the entities each having its own administrative structure. In cases of serious fragmentation, the central government cannot exercise authority over a great part of its territory. However, the cases of this extreme type of fragmentation are very rare as they can lead to state failure. The question is: how do countries end up seriously fragmented? For Bosnia and Herzegovina, it was the Agreement that was meant to be the temporary solution to end the War but that still 25 years after is still in force, keeping this country locked in its current fragmented situation¹⁵.

Even though the institutional indicators of polity fragmentation are generally sticky, they can change. Change is usually gradual. Apart from extreme fragmentation levels, there are two intermediary levels: moderate fragmentation and slight fragmentation. When passing from one fragmentation side to another, countries pass through these stages. For example, until 2012, Syria was not fragmented at all. Before becoming seriously fragmented in 2013 (up to this date), Syria was coded as being a moderately fragmented country in 2012. These changes make sense, due to the fact that fragmentation had begun in the year following the beginning of Syrian war. Moderately

¹⁴ As mentioned earlier, being outliers, Cyprus and Israel are excluded from the statistical analysis.

¹⁵ The example of Bosnia and Herzegovina will be further discussed in Chapter 4.

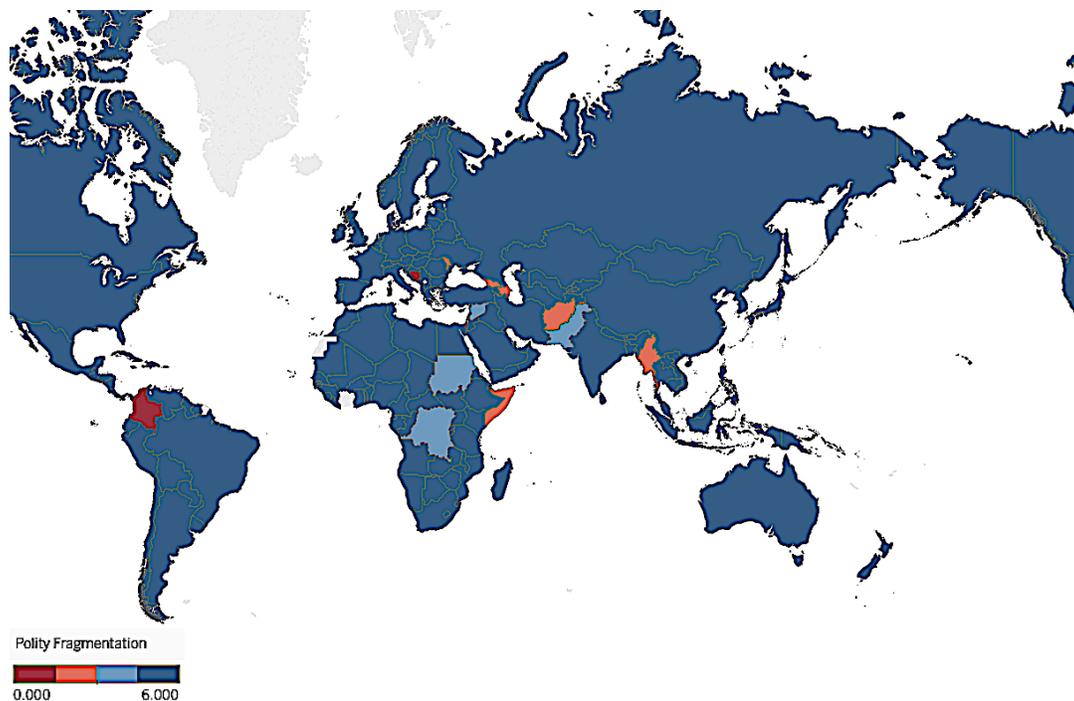
fragmented polities are ones where there is a smaller portion of territory relative to serious fragmentation (between 10% and 25%) that is separated from the central government's effective authority, and effectively governed by the local authority (Marshall et al. 2019, 13). Another example of moderately fragmented polity is Myanmar, due to its unresolved ethnic conflicts. Another example of the change in fragmentation is the case of Somalia that as opposed to Syria experienced a positive shift. Somalia was coded as seriously fragmented up to year 2010, and started gradually improving through moderate in 2011, to slightly fragmented from 2012 until today. Reaching towards no fragmentation, countries that are still transitioning and still face some fragmentation are so called slightly fragmented polities. These are countries where less than 10% of the territory is not under the effective control of the central government. In the case of Somalia, we can see the eventual shift to a slightly fragmented country. As I am using an upward scale to construct the IP Index, I reversed the coding so that the highest code stands for the most preferable outcome, No overt fragmentation. After, reversing the scale, I multiplied each case by 2 to make the Polity Fragmentation scale more similar to the other component of the IP Index. The scale now runs from (0) Serious fragmentation to (6) No overt fragmentation. Even though, Polity Fragmentation is the measure that does not change easily as institutions are sticky, I decided to use a 5 year average in case there is some specific year a country faced extraordinary circumstances, which would not be representative of that country's state but rather the critical juncture in history. Hence, I took the arithmetic mean value of this variable for the period 2009-2013. Examples of country-years at each level of this dimension are shown in Table 3.1.7.

Table 3.1.7: Polity fragmentation: categories by countries/years

Level	Label	Example (2009-2013)
0	Serious fragmentation	Bosnia and Herzegovina, Colombia
2	Moderate fragmentation	Myanmar, Afghanistan, Azerbaijan
4	Slight fragmentation	Pakistan, Somalia (2012-present)
6	No overt fragmentation	USA, Sweden, Germany

In Figure 3.1.8, you can see how the degree of Polity Fragmentation differs in countries over the world. Blue represents countries where there is smaller degree of fragmentation within its territory.

Figure 3.1.8: Polity fragmentation over the world



Political Violence

The second component of the IP Index is Political Violence, which I use to measure the political stability in a country. Political instability negatively affects the ability of the central government to effectively exercise authority over its territory. In a

politically unstable environment, central authority becomes more limited in the enforcement of its policies. Ranging from violent episodes to warfare, instabilities affect socio-economic conditions in a country. In war torn countries, even one's basic livelihood is jeopardized and people mainly have limited access to necessities such as food, sanitation and shelter. In contemporary societies, there are few examples of the extreme cases; however, there are countries where some form of violence continuous to exist to this day, and even the lowest forms of violent episodes affect government effectiveness.

The Center for Systemic Peace captured the degree of political violence and its societal impact across the world in their list entitled Major Episodes of Political Violence 1946-2016. This list is from Marshall's *Third World War* Appendix C that has been updated on a regular basis, and Marshall's *Measuring the Societal Impact of War* (as mentioned in Marshall 2019). Under the major episodes of political violence, Marshall distinguishes between seven types of armed conflicts based on their time span and "magnitude of societal-systemic impact": international violence, international war, international independence war, civil violence, civil war, ethnic violence, and ethnic war (2). In order to be identified as having major societal impact, a conflict needs to result in at least 500 fatalities that are directly connected to the episode of political violence systematically sustained by the organized groups using lethal force. The magnitude is rated annually for countries that have been directly impacted by the warfare. A country intervening elsewhere is not directly affected by the episode of violence. Only countries within which violent episodes are taking place are the ones directly affected (7).

The Center for Systemic Peace's data comprises over 300 major armed conflicts in the world over the time period 1946-2018, coding them on the scale 1 (Sporadic or Expressive Political Violence) to 10 (Extermination and Annihilation) depending on the magnitude of the direct societal effect. "The effects of political violence and warfare include fatalities and casualties, resource depletion, destruction of infrastructure, and population dislocations, among other things such as the psychological trauma to individuals and adverse changes to the social psychology and political culture of affected social identity groups" (Marshall 2019, 7).

Marshall (2019) mentions the potential issue of interpreting societal conflicts in terms of either civil or ethnic. Because these terms can intertwine, as social and political identities are sometimes difficult to distinguish, they compiled the aggregate measure (*CIVTOT* variable) that is the summed magnitudes of all major episodes of political violence. This variable contains both civil and ethnic related forms of violence. Another issue in distinguishing between forms of conflict was due to the fact that there is no clear line between violence and war. Although war is considered a more strategic and institutionalized endeavor, the distinction is somewhat arbitrary. Marshall (2019) distinguishes between these two concepts based on "the degree of militant organization, tactical and strategic characteristics, and expressed level of commitment to the use of violence (2)." The *CIVTOT* variable includes both forms of conflicts. To sum up, the *CIVTOT* variable combines all types of conflicts whether they are civil violence, civil war, ethnic violence or ethnic war.

The dataset is gathered in years after World War II, so there are only a few examples of the most extreme levels (10, 9, and 8) of armed conflicts. As none of the

cases is within last 15 years, they do not affect my data¹⁶. In the recent period, the maximum level is 7, which stands for pervasive warfare. For my analysis, the data range only from 0 (No Episodes of Political Violence) to 7 (Pervasive Warfare) and each is considered below.

According to Marshall (2019, 10) in countries that are experiencing Pervasive Warfare (scale value 7) over half of economic production is consumed by the war, and deaths often exceed million. They describe these countries as places where there is no secure location within society and dislocations often surpass five million. India is the example of a country that has experienced a pervasive warfare state ever since 1994 to this day. Another example is Iran from 1979-1985.

The next level is Extensive Warfare that Marshall defines as having lower societal impacts than Pervasive Warfare in that there are crucial areas within society, which are fairly secure from attacks. When compared to Pervasive Warfare, there is a lower percent of production consumed by the war, population dislocations are also relatively smaller (often exceeding two million), and death numbers often between 500,000 and a million people (2019, 10). Marshall gives the example of Bosnia and Herzegovina from the Bosnian war period 1992-1995, during which ethnic cleansing was used to contain the territory and resource base. In a more recent period, there is the example of Pakistan that has been rated as under extensive warfare since 2005 up to this date. Another extreme example is Syria. It is also the example of how violence is sudden and can change social outlooks from year to year. Before 2010, Syria was classified as without violent episodes,

¹⁶ Level 8 (technological warfare): Pakistan (1947-1948), Ethiopia (1977-1979), Iraq (1979-1993), and India (1990); Level 9 (total warfare): China (1946, 1966-1967), Nigeria (1966), Indonesia (1976-1991), Sri Lanka (1987-1990), India (2001-2002); Level 10 (Extermination and Annihilation): China (1950), India (1991-1993), Rwanda (1994).

only to experience the significant change to extensive warfare in 2011. This corresponds to the onset of the Syrian civil war.

The next level is called Substantial and Prolonged Warfare. It is milder than previous levels in terms of casualties and destruction. Deaths often range between 100 thousand and half a million. Although, there is still intense warfare atmosphere and casualties, the destruction is confined to particular regions. Marshall uses the example of Somalia from 1997 to this date (2019, 10). Other examples include Colombia (1949-1960), Iraq (1961-1978, 2011-2017), and the latest example of Myanmar (2017).

In this next level of warfare, there are no clear or institutionalized objectives and strategies of violence as in previous warfare levels. According to Marshall in the case of Serious Warfare, there are fewer casualties (deaths range between 50 thousand to 100 thousand) and smaller societal impact. In this kind of state, there are means of destruction, but access is limited and the objectives and impact of 'challengers' is indistinctive, and the effects and intensity confined to certain areas or time periods (2019, 11). The examples include Myanmar from 1948 to 2016, Colombia 1975-2016 and Russia from 1999 to 2006.

The remaining levels are classified as types of violence rather than wars. The most intense one among them is the Serious Political Violence. According to Marshall, in the case of serious political violence, the effects are unevenly distributed targeting certain groups of society, and deaths range between 10 and 50 thousand (2019, 11). The Central African Republic has been under the state of serious political violence ever since 2005 up to this date, also Iraq between 1994 and 1995, and Syria between 1979 and 1982.

Lower in terms of societal impact is Limited Political Violence that includes examples such as Israel (1965 up to today) and Turkey (2004 up to this date), and more recently Ukraine from 2014 up to today. Marshall defines Limited Political Violence as having limited societal impact (confined either in terms of area affected or time) due to limited technologies and objectives (2019, 11).

The mildest form of violence, next to no violence, is Sporadic or Expressive Political Violence, which involves even less defined objectives and lower applied technologies than previous levels. Violence is more so the result of general dissatisfaction. Causalities and time/area affected are smaller relative to former levels, with deaths usually below two thousand (Marshall 2019, 11). The examples would be China (2009-2015) and Russia in the period from 2008 to this date. As opposed to Russia that is still classified under some form of violence, China improved to No Violence level in 2016.

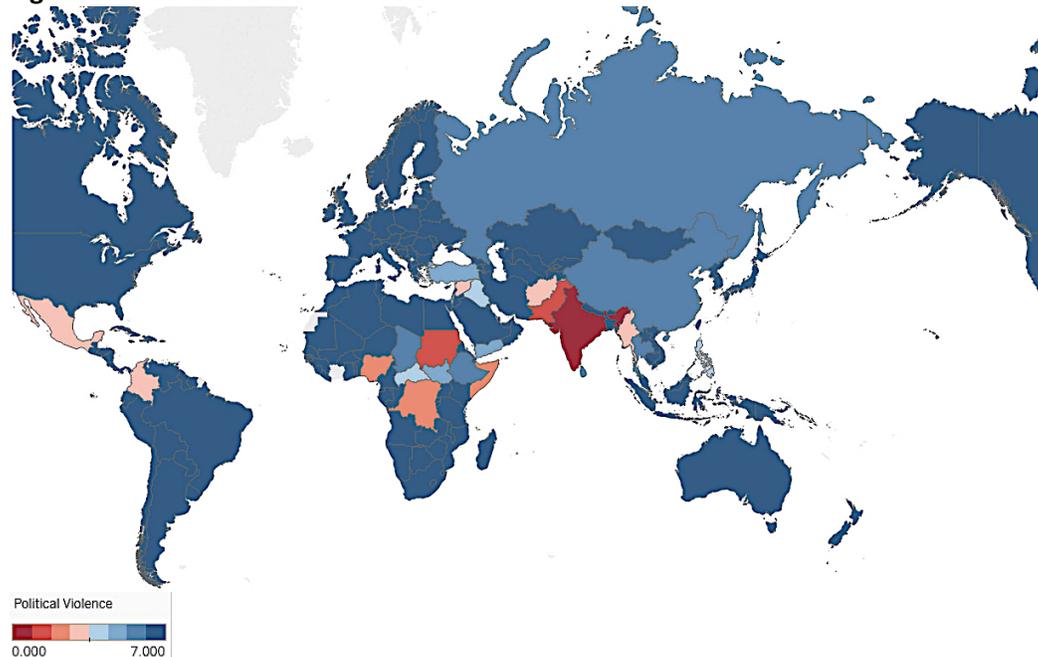
In the original dataset Marshall (2019) is using 0-10 scale. As I will use data no earlier than 2009, there are no examples of values higher than 7, so I will use a 0 to 7 scale. Also, as I am constructing a composite index of dimensions ordered, such that the higher the scale, more preferable the outcome, I needed to reverse the original scale. I adjusted the *CIVTOT* variable to make non-violent episodes the highest outcome (7), and pervasive warfare cases the lowest outcome (0). I decided to use a 5-year period in case there is some specific year a country faced extraordinary circumstances, which would not be representative of that country's state but rather a critical juncture in its history. Hence, I took the arithmetic mean value of this variable for the period 2009 – 2013. Table 3.1.8 presents both the scale value along with examples for each level. If no specific year is

listed below, the country is ranked at that level of violence for the entire 2009-2013 period. In Figure 3.1.9, you can see how the magnitude of Political Violence differs over the world. Blue represents countries where there is smaller degree of political violence.

Table 3.1.8: Political violence: categories by countries/years

Level	Label	Example
0	Pervasive Warfare	India
1	Extensive Warfare	Pakistan, Sudan and Syria (2011-2013)
2	Substantial and Prolonged Warfare	Iraq (2011-2013), Somalia, Sudan (2009-2010)
3	Serious Warfare	Colombia, Libya (2011), Myanmar
4	Serious Political Violence	Yemen (2011-2013), Central African Republic, Philippines
5	Limited Political Violence	Turkey, Yemen (2009-2010)
6	Sporadic or Expressive Political Violence	China, Russia, Ethiopia
7	Non-violent Episodes	USA, Sweden, Germany

Figure 3.1.9: Political violence over the world



Composite index

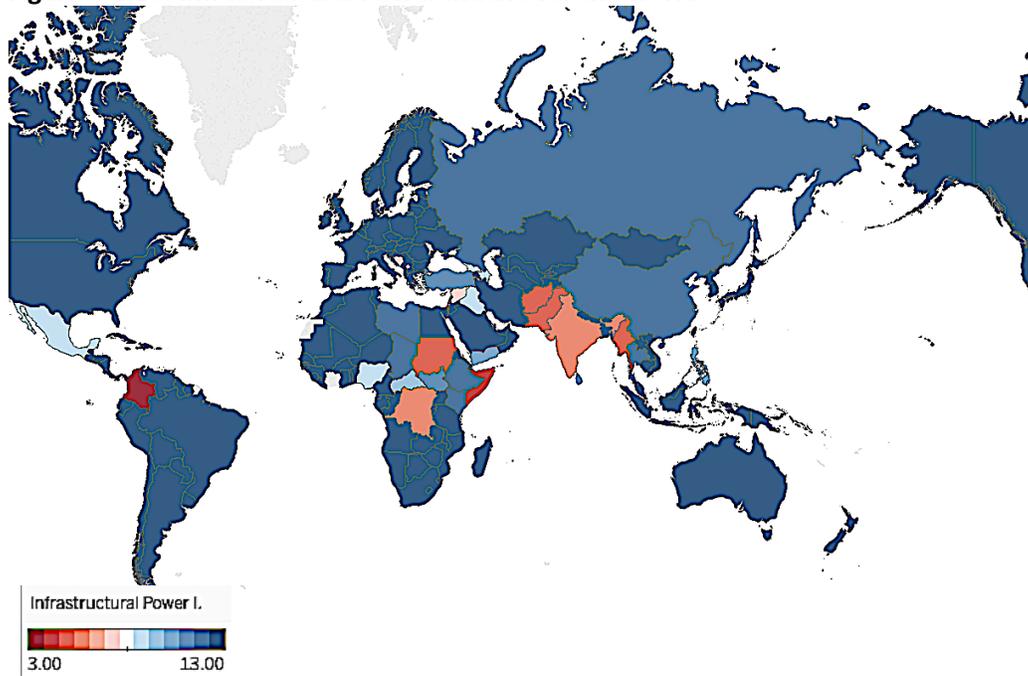
Once Polity Fragmentation and Political Violence are measured, they are added into a composite index called IP Index. The scale ranges from 0-13. In the dataset, Colombia and Somalia have the lowest IP Index of 3 and 4 points respectively. All the countries and their index values from my dataset are listed in Table 3.1.9. In Figure 3.1.10, you can see how IP index differs across the world. Scale in the Figure is according to 0-13 scale of IP Index, with minimum and maximum presented in the legend. Blue represents countries with strong infrastructural power. As most of countries in the world are functional, almost 80% of countries are 'blue'.

Table 3.1.9: IP Index by countries

IP Index	Country (2009-2013)
< 5	Colombia, Somalia
< 10	Afghanistan, Bosnia and Herzegovina, Congo, Syria, Iraq, Mexico, Myanmar, Pakistan, Sudan, India, Nigeria, Azerbaijan, Georgia, Moldova, Central African Republic
< 13	Turkey, South Sudan, China, Russia, Libya, Egypt, Yemen, Ethiopia, Philippines, Sri Lanka, Chad, Thailand, Kenya, Mali, Kyrgyzstan
13	All Others ¹⁷

¹⁷ Albania, Algeria, Angola, Argentina, Armenia, Australia, Austria, Bahrain, Bangladesh, Belarus, Belgium, Benin, Bhutan, Bolivia, Botswana, Brazil, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, Canada, Cape Verde, Chile, Comoros, Congo, Costa Rica, Croatia, Cuba, Czech Republic, Denmark, Djibouti, Dominican Republic, Ecuador, El Salvador, Equatorial Guinea, Eritrea, Estonia, Finland, France, Gabon, Gambia, Germany, Ghana, Greece, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hungary, Indonesia, Iran, Ireland, Italy, Jamaica, Japan, Jordan, Kazakhstan, North Korea, South Korea, Kuwait, Laos, Latvia, Lebanon, Lesotho, Liberia, Lithuania, Luxembourg, Macedonia, Madagascar, Malawi, Malaysia, Mauritania, Mauritius, Mongolia, Montenegro, Morocco, Mozambique, Namibia, Nepal, Netherlands, New Zealand, Nicaragua, Niger, Norway, Oman, Panama, Papua New Guinea, Paraguay, Peru, Poland, Portugal, Qatar, Romania, Rwanda, Saudi Arabia, Senegal, Serbia, Sierra Leone, Singapore, Slovakia, Slovenia, Solomon Islands, South Africa, Spain, Suriname, Swaziland, Sweden, Switzerland, Taiwan, Tajikistan, Tanzania, Togo, Trinidad and Tobago, Tunisia, Turkmenistan, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, Uzbekistan, Venezuela, Vietnam, Zambia, Zimbabwe.

Figure 3.1.10: Infrastructural Power Index over the world



The Infrastructural Power Index is the average of five years between years 2009 and 2013 to allow for the time lag in affecting the dependent variables. As a measure of functionality and state reach within its territory, infrastructural power is not something that changes often. However, when I looked at Infrastructural Power Index for year 2017, I see some countries drop significantly from their average 2009-2013 score. For example, Syria drops from 7.4 to 1 which is mostly due to significant worsening in polity fragmentation. On the other hand, Somalia, Colombia and Kenya had become stronger in terms of Infrastructural Power Index by the year 2017.

2) Inclusiveness Index

Although infrastructural power is necessary for a country to enjoy stability and functionality, it is not sufficient to ensure a more equitable and developed society. In

order to distribute the income more equally throughout the country and in order to turn this income into social goods for society to enjoy, a country needs to be inclusive. Inclusiveness measures state-society power balance that is the degree to which government is constrained in its decision making by the people. In other words, it captures the ability of society to limit a state's autonomy of power and influence a state's decision-making. Inclusiveness is a composite index made of the following three dimensions:

- Constraints on the Executive's Decision-making Powers
- Corruption
- Civil Liberties

Constraint on the Executive's Decision-making Powers

The first component of the Inclusiveness Index is the Constraint on the Executive's Decision-making Powers created by Center for Systemic Peace. The dataset¹⁸ is collected in the Polity IV project, widely used to monitor authority characteristics of national governments in the world, their effects, and the changes in regimes. As the unit of analysis, they use "polity" which is a "political or governmental organization; a society or institution with an organized government; state; body politic" (as cited in Marshall et al. 2019, 1).

The constraint on the executive's decision-making powers explores the extent to which there are institutionally imposed constraints to the actions made by the executive branch. Whether there is an individual or collective executive, there is a degree of checks

¹⁸ (Marshall et al. 2019).

and balances between the parts of a national government. Marshall et al. compare this term to ‘horizontal accountability’ where ‘accountability groups’ impose limits to the executive. As possible examples of the accountability groups, they mention legislative and judicial branches of government in the democracies, “the ruling party in a one-party system, a council of nobles or powerful advisors in monarchies, and the military in coup-prone polities” (2019, 62). The degree of constraint on the executive’s decision-making powers is measured on a 7-point scale ranging from (1) ‘Unlimited executive authority’ where there is no limit to the actions an executive makes to (7) ‘Executive parity or subordination’ where the accountability groups can effectively regulate the executive’s activity.

According to Marshall et al. (2019, 24), in the extreme case of unlimited authority, an executive can ignore, revise or suspend the constitution, often using rule by decree; there is no legislative body, or if there is, its power is limited by the executive; and accountability groups are chosen and removed by the executive. One of the examples coded as (1) includes military dictatorships where the power is concentrated in one man’s hands. Even if there is a legislative body, if it does not have autonomy from the executive it is still considered as an example of the executive’s unlimited authority. Some other examples include absolutist monarchies, personalist dictatorships; one party states where the ruler is above the party structure that is subject to his wishes. Most Latin American countries fit this category in the period of 1970 to mid-1980s. For example, Argentina in the period 1970-1982 or Chile in the period 1973-1987. Another example is East Germany from 1970 to 1988. There are examples of such ‘regimes’ even today, such as

Syria, Saudi Arabia, North Korea, Equatorial Guinea, Bahrain, Qatar, Turkmenistan, and Uzbekistan.

On the other end of the spectrum, there are countries with the highest degree of checks and balances on the executive, and these are coded as (7). ‘Executive parity or subordination’ exists when there is a considerable degree of institutionalized constraints on the actions brought by the executive (Marshall et al, 2019, 25). Consolidated democracies exhibit this characteristic, as there are accountability groups that initiate most important rules and choose the executive whose power is dependent on them. For example, in multiparty democracies where there is competition between and within parties, the executive in power is not guaranteed his office as he is dependent on the continued support from the accountability groups. Due to this, there is often ‘cabinet instability.’ In the case of ‘subordination’, the executive faces more checks and balances and his position and decisions are constrained by accountability groups that have the same or even greater authority. In the year 2017, examples include Japan, USA, Botswana, Croatia, Kenya, Lithuania, Peru, Romania, and Uruguay.

Countries coded (2) through (6) move in ascending order based on the level of checks and balances that accountability groups put on the executive, with higher numbers coded as greater constraints on the executive. Countries at the mid-point, coded (3), are characterized by ‘Slight to moderate limitation on executive authority’ meaning there is some real, but limited, degree of constraints on the executive’s decision making. In this category, there are countries, in which there is an independent judiciary, where the executive cannot change the laws at his whim, and where some of the decisions are brought by the legislative body or ruling party independently of the executive. In some

situations, the legislative body can also initiate and block some decrees or make checks on the executive's actions. Typically coded here are one party states (not dominated by one individual), military regimes with strong and enduring bureaucracies, "democratic-authoritarian leaders" that dominate the legislative and judiciary bodies whereby his lack of 'horizontal accountability' stems from the weak and non-integrated institutional structure prevailing in a country (Marshall et al, 2019, 64). Some of the examples from 2017 include Cuba, Turkey, and Egypt.

Countries coded (5) are characterized by 'Substantial limitations on executive authority' meaning, although the executive is effectively more powerful than the accountability groups, there are substantial restraints on his actions. Some of the examples in which an accountability group can limit executive authority are through modification of his proposals, refusal of funding, and independent appointment to important administrative positions. Typically coded here are democratic regimes under a strong presidential hand that are found here either due to the initial design of the system or failure of the legislative body to set boundaries to the executive's actions, or when the chief executive although dominating the judicial branch is significantly restrained by the legislative body (Marshall et al, 2019, 25). Some examples in 2017 include Ukraine, Malaysia, and Zimbabwe.

Countries coded (2), (4), and (6) are intermediate categories that mark periods of transition that should not last more than a decade at a time. The intermediate categories are difficult to define and categorize clearly as the changes in the balance of power are temporary, and it is a judgment call where to put these countries (Marshall et al, 2019, 64-66). Basically, countries coded in these intermediate categories are facing changes in

the executive's powers over the legislative and judicial bodies. For example, a country categorized as (2) is a country (for example, Iran in 2017) where the executive does not have completely unconstrained power as in category (1), but also does not have slight to moderate limitation in his decision making as in category (3). Countries coded as (2) are the regimes where the executive had absolute power but is now experiencing a slight change in his decision-making, due to, for example, the creation of an advisory board. A country such as Russia in year 2017 is coded as (4) which means it is in a gradual change from category (3) to (5). This means it is transitioning from slight/moderate to substantial limitation on executive authority. In these cases, there is emergence of real but still limited constraint on the executive. Countries (e.g. Colombia, Iraq, Somalia (2017)) coded as (6) are progressing from the substantial constraints on the executive but have not yet reached 'executive parity' (7). For example, a parliamentary system where there is a single individual who becomes the chief executive in a non-coalition government and also dominating the ruling party is coded as (6). Countries that face national crisis and where the legislative body hands the executive "emergency powers" are also coded in this intermediate category (Marshall et al, 2019, 63).

There are also countries that cannot fit any category, so they are marked as 'interruption' (-66), 'interregnum' (-77), and 'transition' (-88). In countries coded under the interruption period, there had been some sort of war where the old polity is terminated and the country is in the interruption while the new polity is being formed. For example, from 2003 to 2009, Marshall et al. (2019, 19) coded Iraq to be in the interruption category, which corresponds to the period of the Iraq War. Another example of country coded as (-66) is Bosnia and Herzegovina. Interestingly, the interruption period

corresponds to the years after the war in this country. When I inquired (via email) about this classification, a representative from Center for Systemic Peace responded: “In practical terms, we consider that the central state of Bosnia exists as a formal structure but the reality of the situation is that political authority resides in the ethnic republics. The formality of the central state, which Polity codes because it is the entity recognized within the global state structure, is maintained by the international community, and executive authority for the Bosnian state is seated in the High Representative, rather than the Presidency. That interpretation leads us to code the situation as a “-66” (interruption by foreign authority).” This means that Bosnia and Herzegovina although formally existing as the country, is not a self-functioning polity but is dependent on the foreign authority.

Furthermore, there is a code for an interregnum period (-77) for countries that are in the situation where the central political authority experienced a collapse, which mainly happens during the phases of an internal war. For example, Somalia is coded as (-77) in the period between 1991 and 2010. To categorize Somalia as in the interregnal state in this period makes sense, as it was the time of civil war. The state was in collapse as the central government was not functioning and not controlling the multitude of self-functioning city states within its territory. The conflict was decentralized, with the existence of many autonomous actors and no central authority to handle their relations.

Finally, there is a code for transition period (-88) that is used to mark the period preceding the formation of the new polity during which new institutions are undergoing the process of establishment. As an example, we can consider Egypt, in the year of 2012,

which was the transition year in the Egyptian political scene. After Mubarak stepped down, the military took power before the first democratically elected president.

Generally, the constraint on the executive's decision-making powers is the measure that does not change easily as institutions are sticky. However, I decided to use a 5-year period for every indicator that is comparable over years. Also, there was the possibility that in some specific year some country faced a civil war or revolution, which would not be representative of that country's state but rather the critical juncture or an outlier in the history. Hence, I took the arithmetic mean value of this variable for the period between years 2009 and 2013. In the cases where the countries were marked as 'interruption' (-66), 'interregnum' (-77), and 'transition' (-88) in some of the years, I took the arithmetic mean of the values for years where country was categorized as one of the 7 categories as mostly the 'uncategorized' years were not representative of the situation in the state but rather marked the disruptive events. However, in the cases of Afghanistan and Bosnia and Herzegovina the 'uncategorized label' 'interruption' (-66) lasts for a longer time span. In Afghanistan, the interruption lasts between 2001 and 2013. I decided to take the mean value of the years that followed after the disruption period passed. In the case of Bosnia and Herzegovina, the interruption period lasts in perpetuity due to the constitutional arrangement of Bosnia and Herzegovina that does not have the usual self-governing autonomy but is dependent on foreign forces that can intervene in its decision making through the institution of the High Representative¹⁹. In order to have an

¹⁹ The Dayton Peace Agreement (the Dayton Accords) was signed to end 1992-1995 war in Bosnia and Herzegovina. One of the stipulations of the Agreement was the continuation of international mediation in the implementation of peace in the country through the institution of the Office of the High Representative (OHR). Under 'Bonn Powers', the OHR can make decisions in all branches of the government, including "the imposition of substantial legislation, the amendment of Bosnian legislation, the dismissal of elected government officials, and the

inclusiveness index for Bosnia and Herzegovina, I needed some value for this variable to make up the composite index. I decided to use the mean value of the other ex-Yugoslavian countries that are similar to Bosnia and Herzegovina, but that do not have this ‘anomaly’ in their constitutional arrangement. Examples of country-years at each level of the index are shown in Table 3.1.10.

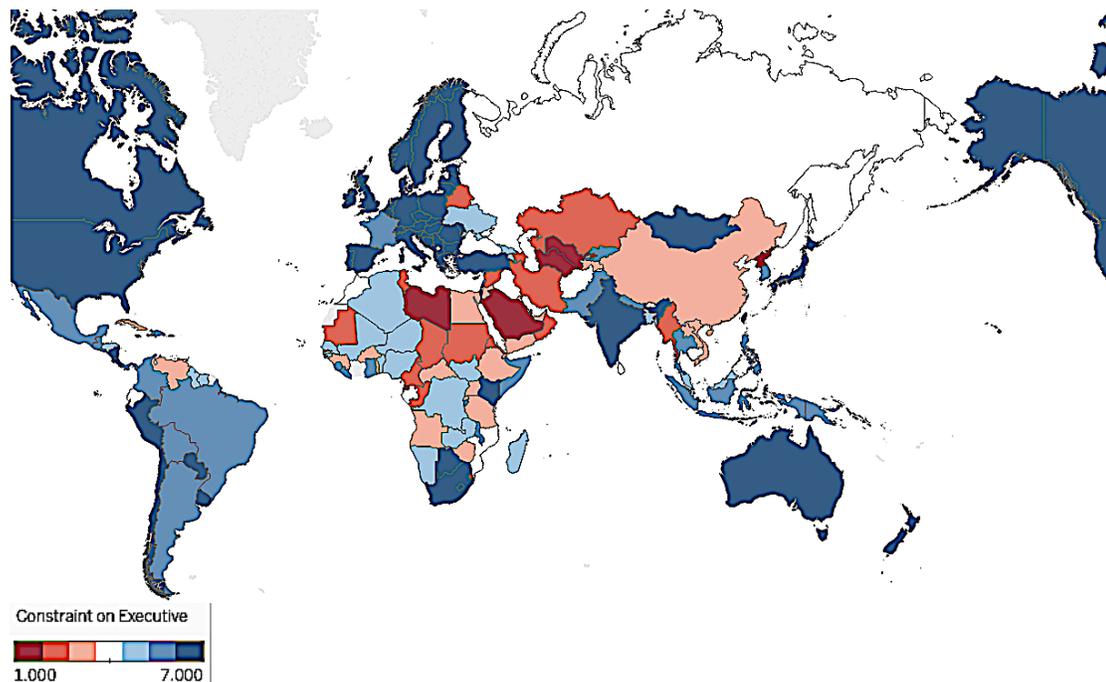
Table 3.1.10: Constraint on the executive’s powers: categories by countries/years

Level	Label	Example
1	Unlimited executive authority	North Korea (1970-2017), Qatar (1971-2017), Saudi Arabia (1926-2017)
2	Intermediate categories	Iran (2009-2017), Eritrea (2009-2017), Sudan (2005-2017)
3	Slight to moderate limitation on executive authority	China (1976-2017), Cuba (1902-2017), Singapore (1965-2017)
4	Intermediate categories	Gabon (2009-2017), Russia (2007-2017), Ecuador (2007-2017)
5	Substantial limitations on executive authority	Malaysia (1971-2017), Nigeria (1999-2014), Armenia (1998-2017)
6	Intermediate categories	France (1986-2017), South Korea (1988-2017), Argentina (1999-2014)
7	Executive parity or subordination	USA (1800-2017), Sweden (1917-2017), Germany (1990-2017)
-66	Interruption	Bosnia & Herzegovina (1995-2017), Iraq (2003-2009), Afghanistan (1979-2013)
-77	Interregnum	Somalia (2009-2010), South Sudan (2013-2017), Libya (2011-2013)
-88	Transition	Tunisia (2011-2013), Kyrgyzstan (2010)

annulment of decisions of the Bosnian Constitutional Court” (Banning 2014, 261). I will focus more on the Dayton Agreement and its effects on Bosnia and Herzegovina in Chapter 4.

In Figure 3.1.11, you can see how the degree of constraints on the executive's actions differs in countries over the world. The scale in the Figure is according to 1-7 scale of the indicator, with minimum and maximum presented in the legend. Blue marks those countries with the highest degree of executive constraints, while red marks those with the lowest level of checks and balances on the executive.

Figure 3.1.11: Constraint on the executive's decision-making powers over the world



Corruption

The second component of the inclusiveness index is the Corruption Perception Index (CPI) used since 1995 as the measure of perceived corruption in public institutions. It is a composite indicator compiled by Transparency International using 13 data sources²⁰ issued by independent institutions using methodology, which has been

²⁰ African Development Bank Governance Ratings, Bertelsmann Foundation Sustainable Governance Indicators, Bertelsmann Foundation Transformation Index, Economist Intelligence

reviewed by Transparency International as valid and reliable. Transparency International compiled as many as 13 datasets to form a single index in order to decrease the chance of bias inherent in any one source. Datasets differ in terms of perspective, methods and respondents. Some datasets are particular for a certain region. The main focus of research by these institutions is to analyze the governance and business climate in countries using various surveys and assessments. The CPI is the aggregate index that measures the perception of corruption in the public sector of a country. Corruption per se is illegal so we cannot have a precise, objective measure of corruption, but rather we can measure the perception of corruption. Countries that score the worst on the CPI are not necessarily the most corrupt ones; rather, these are the countries where the representatives from the business sector and other experts perceive their public sector as very corrupt (Transparency International 2015).

A country is included in the dataset²¹ if there are at least three different institutions assessing perceptions of corruption, whereby the CPI score is the average of the standardized score of those sources (Transparency International 2015). Transparency International made an update to the methodology in the Corruption Perception Index in year 2012, so we are not able to compare the results 1995-2011 to those 2012 up to today. However, due to the fact that the CPI does not often change significantly from year to year this should not be a problem. The data sources are standardized to a scale ranging from the highest level of perceived corruption (0) to the lowest level of perceived

Unit Country Risk Ratings, Freedom House Nations in Transit, Global Insight Country Risk Ratings, IMD World Competitiveness Yearbook, Political and Economic Risk Consultancy Asian Intelligence, Political Risk Services International Country Risk Guide, Transparency International Bribe Payers Survey, World Bank - Country Policy and Institutional Assessment, World Economic Forum Executive Opinion Survey (EOS), World Justice Project Rule of Law Index.

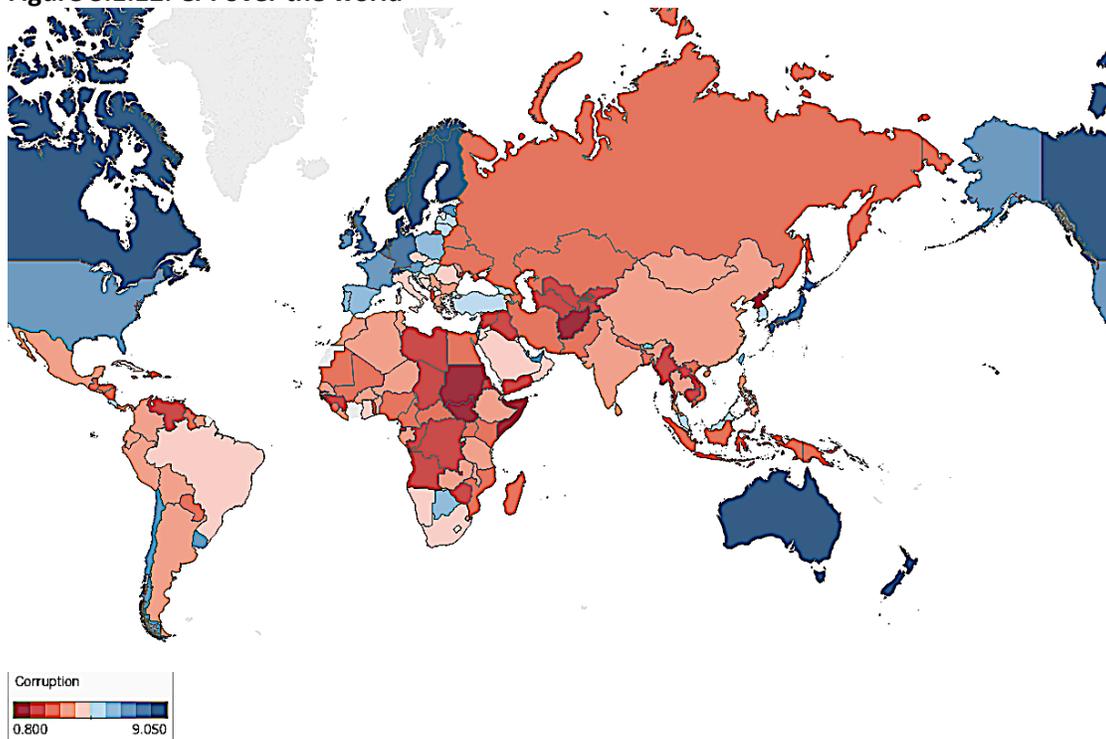
²¹ Corruption Perceptions Index 2017: Score evolution since 2012 (Transparency International 2018).

corruption (100). When compiling the Inclusiveness Index, I divided each value by 10 to get the scale 0-10 in order to have more comparable indicators within the Inclusiveness Index. Then, I calculated the mean value of the CPI for 2012 and 2013. Corruption is evidently a problem throughout the world. When looking at the data, we can see that 132 out of 161 countries in the dataset score below 6 in terms of perceived corruption. Even some EU countries such as Croatia, Hungary, Slovenia and Poland score below 6. The best-ranked countries in terms of perceived corruption in the public sector are New Zealand, Canada, Australia, Singapore and the Nordic countries. Examples of countries at each level of the index are shown in Table 3.1.11. Further data on how perception on corruption differs over the world can be seen in Figure 3.1.12. Scale in the Figure is according to 0-10 scale of the CPI, with minimum and maximum in the legend. Blue marks countries where perceived corruption is the lowest.

Table 3.1.11: CPI by countries

CPI	Country
< 1	Afghanistan, North Korea, Somalia
1 – 1.99	Sudan, Iraq, Libya
2 – 2.99	Syria, Iran, Russia
3 – 3.99	India, Argentina, China
4 – 4.99	Bosnia and Herzegovina, Cuba, Turkey
5 – 5.99	South Korea, Rwanda, Slovenia
6 – 6.99	Austria, Botswana, Qatar
7 – 7.99	USA, Japan, Germany
8 – 8.99	Singapore, Sweden, Norway
9 – 10	Denmark, New Zealand

Figure 3.1.12: CPI over the world



Civil liberties

The third component of the Inclusiveness Index is Civil liberties²², compiled by Freedom House. Since 1972, Freedom House has been trying to provide the world with a universal assessment of the political rights and civil liberties of states in their annual survey called *Freedom in the World*. The survey is conducted across the globe and measures the degree to which individuals can pursue their political rights and civil liberties on-the-ground. It is not just the government that can limit these freedoms, there are other actors such as armed groups. Hence, this survey does not revolve around government actions per se, but rather how freedoms of individuals are exercised in the real world. In order for the assessment to be applicable worldwide, and the results

²² Dataset used is Country and Territory Ratings and Statuses, 1973-2018 (Freedom House 2019).

unbiased regardless of culture, geography or development level, Freedom House used basic standards derived mainly from the Universal Declaration of Human Rights. It is considered that these standards are universal, irrespective of diversity between countries. To provide the objective and up to date assessments of ‘freedom’ across the globe, an expert committee is periodically reviewing the methodology used in the survey. So far, there have been a number of changes in the methodology due to evolving concepts of political rights and civil liberties; however, these changes have been incremental, so the ratings across the years can still be compared (Freedom House 2018).

Freedom House measures freedom by assessing the degree of rights and liberties individuals have to act in different spheres of life. Hence, the freedom of individuals is categorized across political rights (electoral process, political pluralism and participation, and functioning of government) and civil liberties (freedom of expression and belief, associational and organizational rights, rule of law, and personal autonomy and individual rights). Political rights and civil liberties are highly correlated, closely following each other; ratings of a country on the two parameters are never more than 2 numbers apart. This can be explained by the fact that rarely in developed civil society can there be a lack of political rights, so we cannot find a country highly ranked in civil liberties that is extremely low in terms of political rights. Since I already have components in the Inclusiveness Index that capture political rights, I will only focus on civil liberties. While the Political rights answer the questions regarding the citizens’ active and passive role, their scale and scope of influence in the political scene of a country, Civil liberties assess citizens’ rights on a more personal scale. To assess Civil liberties, the survey is separated into four sections (Freedom House 2018):

- In the first section, the survey evaluates freedom of expression and belief by asking the questions about freedom and independence of media, freedom to practice and express religion publicly and privately, freedom and independence of the education system, and freedom to speak freely.
- The second section focuses on associational and organizational rights by evaluating freedom of assembly, protests, and petitions, freedom of non-governmental organizations to engage in human rights or issues related to governance, and freedom of establishment and operation of various professional organizations.
- The third section revolves around rule of law by questioning the independence of the judicial branch of government, fairness in court proceedings and the rights of defendants, use of force by law enforcement officers and protection against political terror, unjustified imprisonment or torture, and the treatment of various segments of the population.
- The fourth section is focused around personal autonomy and individual rights consisting of questions about freedom of movement of individuals, freedom of property ownership and business establishment, social freedoms such as appearance, and choice of marriage partner or family size, and equality of opportunity.

After all the answers in the survey are compiled and reviewed by experts, countries are ranked; the ones with the rating (1) in civil liberties are the best in terms of providing their citizens wide range of freedoms. Generally, these are the countries, which allow the society to enjoy the freedom to express, speak, believe and to make their choices without the fear of prosecution. There is the rule of law and in the economic life; there is no restriction and equal opportunity for everyone. Countries with the rating (2)

are weaker in providing civil liberties than countries ranked (1) due to some limits on media, professional organizations and not equitable treatment for all groups within society (Freedom House 2018).

Further down in providing liberties are the countries ranked (3-4-5). In this group, we can find countries that in moderation protect all of the liberties, as well as countries that strongly protect some liberties, but less strongly other ones. People living in countries ranked (6) experience many restrictions in their civil liberties, such as their rights of expression and association, or limits in their economic opportunities. They may have some social freedoms as opposed to people living in countries ranked (7) that have few or no liberties at all.

When, compiling the inclusiveness index, I decided to have an upward trend indicator, where higher value means greater civil liberties. Hence, this component needed to be adjusted, so that countries ranked (7) representing lowest the level of freedom were translated to rank of (1). After this adjustment, countries ranked (1) have the lowest civil liberties and countries ranked (7) the highest civil liberties. Even though, civil liberties is sticky indicator and not something that changes frequently, I collected values for a longer time period. For each country, I calculated the arithmetic mean of the ratings over 5-year period between years 2009 and 2013. In Table 3.1.12, you can see examples of countries representing each of the ratings.

Table 3.1.12: Civil liberties by countries

Civil Liberties	Country
1	Uzbekistan, North Korea, Somalia
2	Cuba, China, Iraq
3	Egypt, Pakistan, Russia
4	Colombia, Singapore, Malaysia

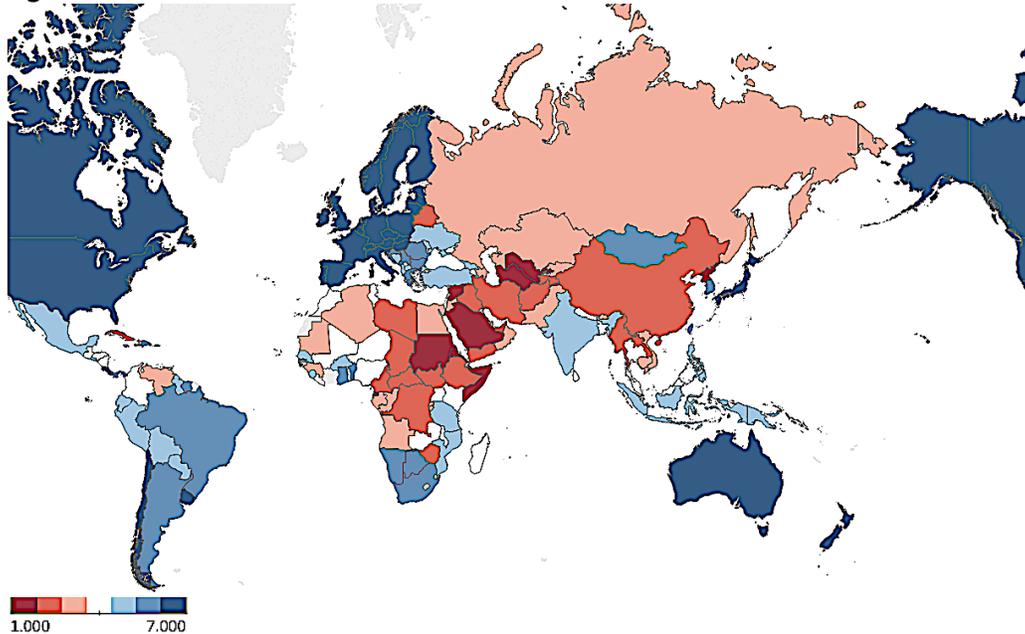
5	Bosnia and Herzegovina, Mexico, India
6	South Korea, Japan, Botswana
7	Finland, Germany, USA

The score in the current year is based on the score from the previous edition of *Freedom in the World* survey. The score is changed only if there was an event that impacted one of the categories, for example if there was blockage of the media- that would diminish the rating. Analysts and academic advisers conduct the process of research and rating using a broad range of sources ranging from academic, nongovernmental, news reports, and on the field reports. Once compiled, the ratings undergo a process of review in a series of meetings held across the core world regions where ratings are compared to the previous year's ratings and compared cross regionally to ensure consistency. All of the countries in Table 3.1.12 have constant rating in the period 2009-2013. If the country is to change the rating from a previous year, more attention is given to such cases. Some countries experience positive change while others drop in rating of civil liberties (Freedom House 2018).

Libya and Myanmar were countries with civil liberties rating of 1 in years 2009 and 2010 that improved to 2 in 2011 and to 3 in 2012. Another example of positive change is Japan, which improved from a rating of 6 to 7 in 2013, and kept this score up to today. Even though top ranked countries are usually stable in terms of ranking, there are a few examples of countries with deteriorating liberties such as Hungary, Latvia, Poland and France. Hungary had a rating of 7, in 2011 by 2017 it had decreased to 6. France experienced a similar pattern, until 2016 it had the highest rating, but decreased to 6 today. Venezuela was rated 4 in 2009, and experienced a decline in civil liberties to a

rating of 3 from 2010 to 2017. Turkey is fluctuating even more with civil liberties. From 2009 to 2011 it had a rating of 5, which decreased to 4 in 2012-2015 period, and then 3 in 2016 and 2 in 2017. To see civil liberties over the world, refer to Figure 3.1.13. Scale in the Figure is according to 1-7 scale of Civil liberties, with minimum and maximum presented in the legend. Blue marks countries with the highest civil liberties.

Figure 3.1.13: Civil liberties over the world



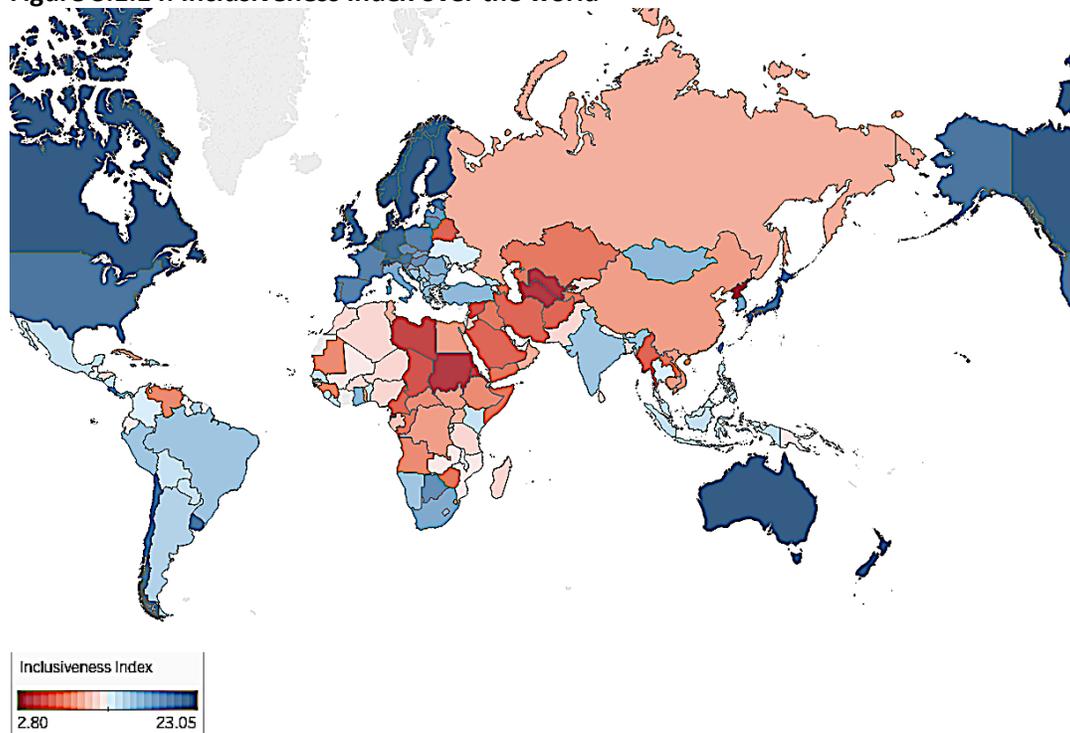
Composite index

Once the three dimensions are measured, they are added into a composite index called Inclusiveness Index with scale 0-24. North Korea has the lowest Inclusiveness Index of 2.8 points, while the highest index of 23.05 is in Denmark and New Zealand. Other examples can be found in Table 3.1.13. In Figure 3.1.14, you can see how inclusiveness differs over the world. The scale is according to the Inclusiveness Index 0-24, with minimum and maximum in the legend. Blue marks more inclusive countries.

Table 3.1.13: Examples of Inclusiveness Index by score ranges

Inclusiveness Index	Country
< 4	North Korea, Turkmenistan, Uzbekistan
< 8	Libya, Somalia, Iraq
< 12	China, Cuba, Russia
< 16	Colombia, Singapore, India
< 20	Bosnia and Herzegovina, Turkey, South Korea
< 24	USA, Sweden, Japan

Figure 3.1.14: Inclusiveness Index over the world



In my analysis, I will use the average of five years between years 2009 and 2013 to allow for the time lag in affecting the dependent variables. As a measure of the distribution of power, inclusiveness is not something that changes often. However, when I calculated Inclusiveness Index for 2017 and compared to the 2009/2013 values, I see scores of some countries drop significantly. For example, Turkey drops from average of

16.55 to 10; South Sudan from 9 to 3.2; Yemen, Syria and Bahrain dropped by more than two units in the Inclusiveness Index. Bosnia and Herzegovina and Hungary dropped by 1.4 units in the last year. On the other hand, there are countries that improved in terms of Inclusiveness Index by 2017. Countries such as Myanmar, Iraq and Zimbabwe improved their levels of inclusiveness.

3) Unpacking the Independent Variables

I created the Independent Variables by theoretically specifying two-dimensional institutional setting consisting of infrastructural power and inclusiveness. In conceptualizing each dimension, I determined both of them are indices compiled of different components. In order to confirm that the two dimensions are distinct and that the components are relevant in describing each dimension, I did factorial analysis. More closely, my objective in factorial analysis was twofold. Firstly, I wanted to show that components within each Independent Variable fit together and explain distinct parts of the institutional dimensions. Secondly, I wanted to show that components load separately on two dimensions. To recall, the Independent Variables are two institutional dimensions, each measured as a composite index. According to my theory, Infrastructural Power consists of Polity Fragmentation and Political Violence; and Inclusiveness consists of Constraints on Executive, Civil Liberties and Corruption. However, in order to confirm dimensionality of the Independent Variables, I conducted factorial analysis. Do factors explain variability in the data and will variables load in indices as my theory proposes? The first two factors have variances (eigenvalues)²³ that are greater than one, which means that they explain most of the variability in the data. The remaining factors are not

²³ The scree plot is presented in Figure A.1 in Appendix.

considered important as they account for a very small proportion of the variability.

Rotated factor loadings produce the following results.²⁴

- Polity Fragmentation and Political Violence have large positive loadings on factor 2, so this factor describes functionality and reach of state. I renamed this factor into Infrastructural Power Index.
- Constraints on Executive, Civil Liberties and Corruption have large positive loadings on factor 1, so this factor describes state to society relations. I renamed this factor into Inclusiveness Index.

4) Institutional Matrix

Both Infrastructural Power Index and Inclusiveness Index are continuous variables, and in the statistical analysis are treated as such. However for the purpose of exploring how the institutional setting as a whole leads to different socio-economic performances, I created the institutional matrix where each index is a dichotomous variable. According to different combinations of two the categorical variables, countries clustered in following quadrants²⁵:

- 1. quadrant:** Weak Infrastructural Power / Low Inclusiveness
- 2. quadrant:** Strong Infrastructural Power / Low Inclusiveness
- 3. quadrant:** Strong Infrastructural Power / High Inclusiveness

²⁴ For more details see Table A.1 in Appendix.

²⁵ Technically, there are four combinations of 2 dichotomous variables resulting with four quadrants. However, I assume that there can be no country in the top-left quadrant where Inclusiveness Index is high and Infrastructural Power Index is weak. This is explained in greater detail in the chapter on theory (Section 2.2).

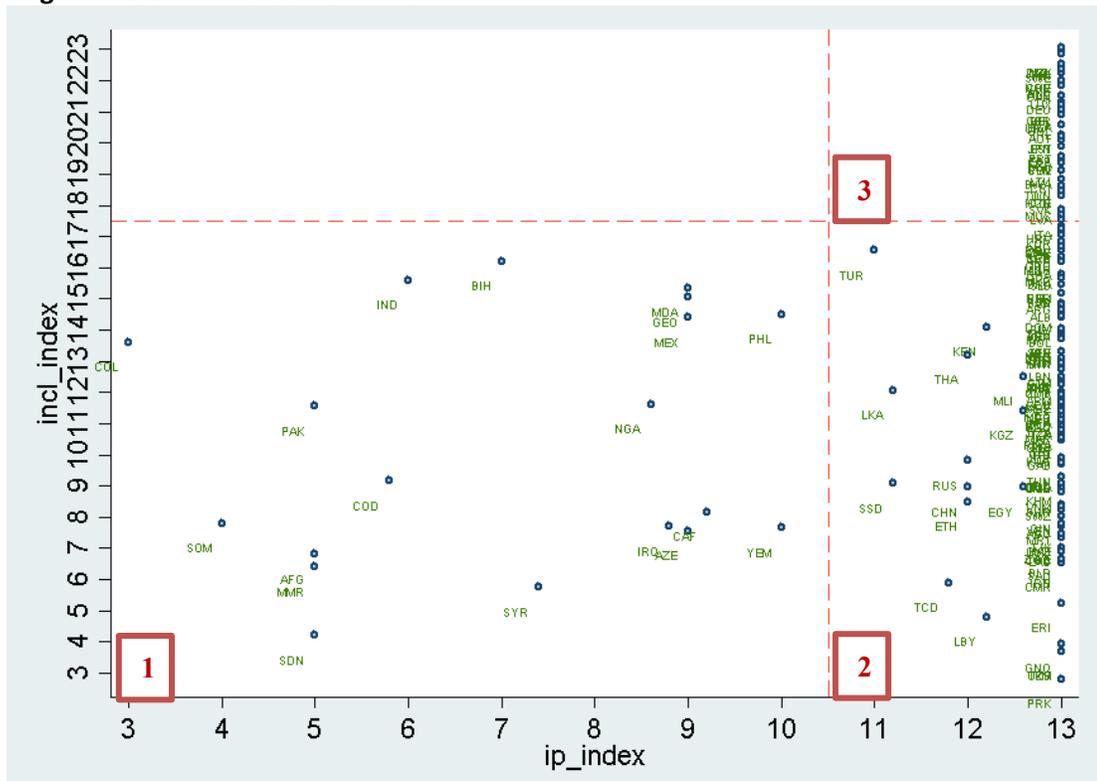
After plotting the data in STATA, I noticed that countries naturally clustered in three quadrants. For the purpose of constructing the institutional matrix, I put the cutoff²⁶ points where there was a gap between clusters and where there is an argument that the score on the institutional dimension below that point could be considered low. A country with Infrastructural Power Index of 10.5 and below (out of maximum 13) is classified as weak as such a country does not have a government that can fully control its territory and in which there is some sort of violence the state cannot control. For example, Yemen and Philippines have Infrastructural Power Indices of 10. When separated into the indicators Infrastructural Power Index is composed of, we see that Yemen and Philippines have no problems with fragmentation, but they do have problems with the state keeping peace within territory. Both countries are categorized as having serious political violence. A country with an Inclusiveness Index of 17.5 and below (out of maximum 24) is classified as low as such a country does not have the minimum level of balance between the power of society versus the state. For example, Romania and Montenegro are close to the cutoff point. When separated into the indicators of Inclusiveness Index, we see that both countries score lower due to the Corruption indicator, having very high perceived corruption.

In Figure 3.1.15, you can see how countries naturally clustered into quadrants. Quadrants are based on the theoretical framework of the institutional matrix presented in Chapter 2.2 in Table 2.2.1. They are labeled as '1', '2' and '3' in the ascending order because I assume that the institutional path to 'success' occurs if a country moves through these stages, the third being the most successful stage. As infrastructural power is

²⁶ The cutoff points depend on the relative values of both dimensions of all countries in the dataset. A decade ago, when development in the world was at different level, compared to today, the cutoff points would probably be different.

a measure of functionality, I assumed that most countries are strong on this aspect. A basic requirement of any polity is its capacity to function, so it is only natural we see around 80% of world's countries 'max out' on infrastructural power. We can say that infrastructural power is a necessary aspect of a country to functionally exist. On the other hand, inclusiveness is not necessary for survival of a polity, but rather manifestation of its societal evolution. In Figure 3.1.15, you can see that most countries end up in either the second or third quadrant. These two quadrants share strong infrastructural power but differ in terms of inclusiveness.

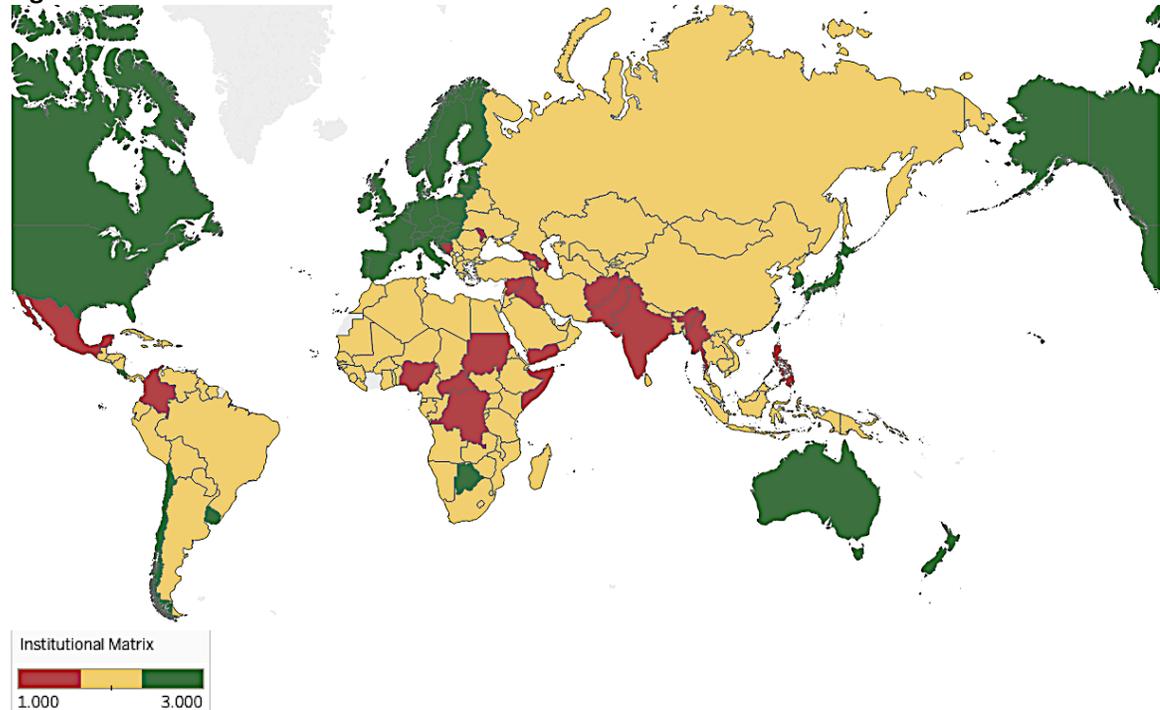
Figure 3.1.15: Institutional Matrix



In Figure 3.1.16, you can see the institutional matrix around the world. 'Red countries' are the 'first quadrant countries' with weak Infrastructural Power Index and low Inclusiveness Index. 'Yellow countries' are the 'second quadrant countries' with strong

Infrastructural Power Index and low Inclusiveness Index. ‘Green countries’ are the ‘third quadrant countries’ with strong Infrastructural Power Index and high Inclusiveness Index.

Figure 3.1.16: Institutional Matrix over the world²⁷



Control Variables

Variables that are most commonly used in the literature on comparative economic development as controls fall in one of the following categories: cultural variables, such as religious or ethno-linguistic fractionalization; demographic variables, such as population density; gravity variable (geography), such as land area, landlocked or island dummies; historical variables, such as war casualties or a colonial dummy (Tavares and Wacziarg 2001). In my models, I decided to control for cultural, geographic and historical factors.

²⁷ How countries positioned across quadrants in the institutional matrix can be seen in greater detail in Table A.5 in Appendix.

- Ethnic²⁸ Fractionalization is “the probability that two randomly selected people from a given country will not share a certain characteristic” (Alesina et al. 2003 as cited in Teorell et al. 2018, 68)²⁹. Some of the countries where there was the lowest probability that two randomly chosen people will not share the same ethnicity were South Korea, North Korea, and Norway. On the other side, countries with the highest level of fractionalization were Nigeria, Kenya and Somalia. Other examples can be found in Table 3.1.14.

Table 3.1.14: Ethnic fractionalization by countries ³⁰

Ethnic Fractionalization	Example
<0.2	Japan, Denmark, Australia, China, Saudi Arabia
< 0.4	Turkey, Singapore, Philippines, Russia, Iraq
< 0.6	India, USA, Myanmar, Syria, Belgium
< 0.8	Colombia, Bosnia and Herzegovina, Iran, Nepal, Libya
< 1	Chad, Uganda, Congo, Central African Republic, Uganda

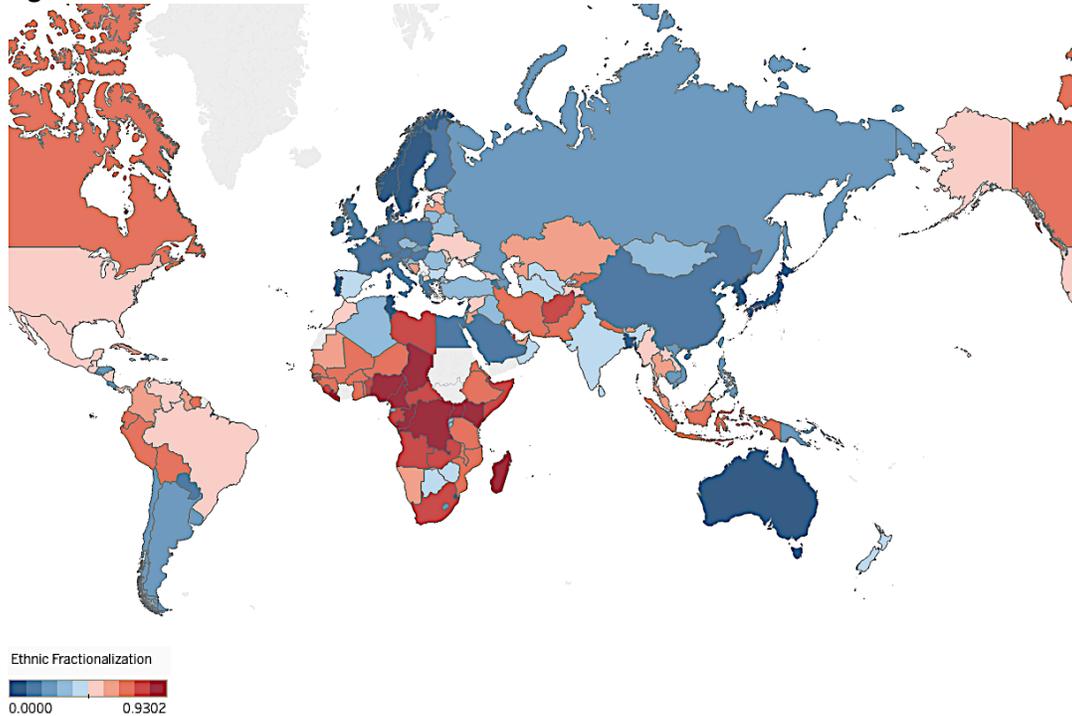
Figure 3.1.17, illustrates how ethnic fractionalization differs over the world. The scale in the Figure is according to a 0-1 scale, with minimum and maximum presented in the legend. Red marks countries with higher ethnic fractionalization.

²⁸ Ethnic characteristics combine race and language.

²⁹ Missing cases are Montenegro, Serbia, South Sudan, Sudan and Yemen.

³⁰ (Teorell et al. 2018; Alesina et al. 2003)

Figure 3.1.17: Ethnic fractionalization over the world



- Arable Land is a percentage of land area “under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow” (Food and Agriculture Organization as cited by World Bank 2019)³¹. Some of the countries with the lowest percentage of arable land (below 2%) are United Arab Emirates, Saudi Arabia, and Qatar. On the other side, countries with the highest percentage (above 55%) of arable land were Bangladesh, Ukraine and Denmark. Other examples can be found in Table 3.1.15.

Table 3.1.15: Arable land by countries

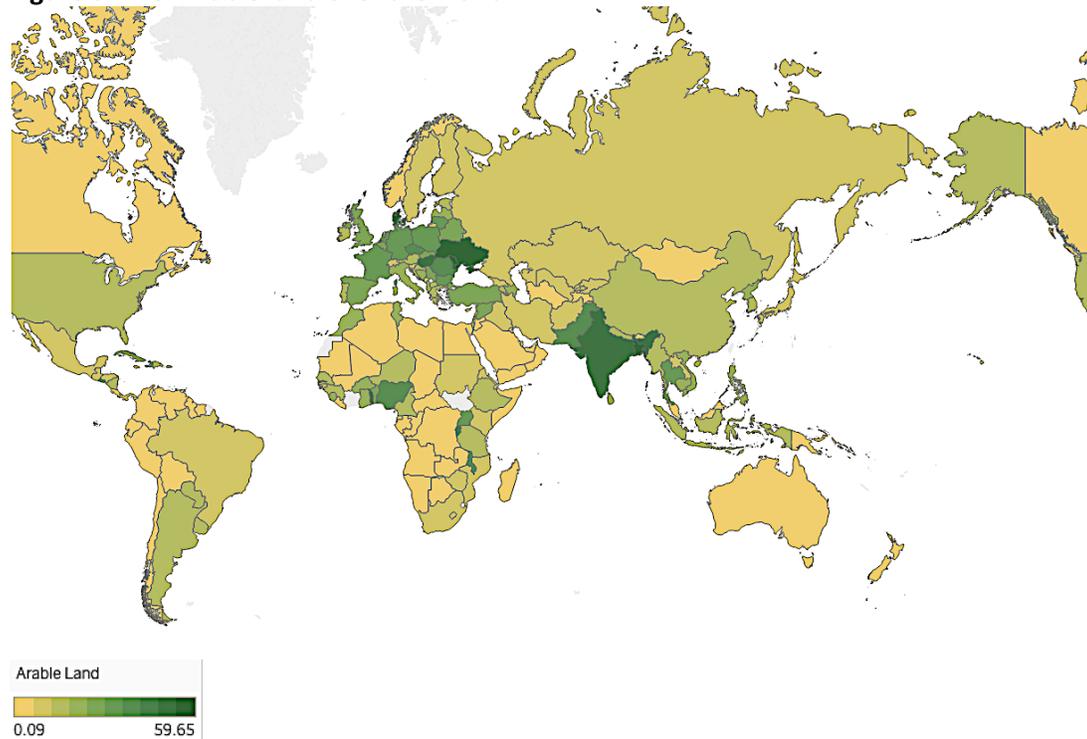
Arable Land (%)	Country
<10	Iran, Russia, Norway, Canada, Somalia

³¹ Missing cases are South Sudan, Swaziland, and Taiwan.

< 20	North Korea, China, US, Japan, South Korea
< 30	Bosnia and Herzegovina, UK, Turkey, Syria, Belgium
< 40	Netherlands, Germany, Pakistan, Poland, Nigeria
< 50	Hungary, Rwanda, Gambia, Czech Republic, Burundi
< 60	India, Moldova, Denmark, Ukraine, Bangladesh

In Figure 3.1.18, you can see how percent of arable land in countries differs over the world³². Almost 85% of countries in the world have less than 30% of arable land, that is the land that can be used to grow crops. The scale in the Figure is according 0-100 scale, with minimum and maximum presented in the legend. Green marks countries with the highest percent of arable land.

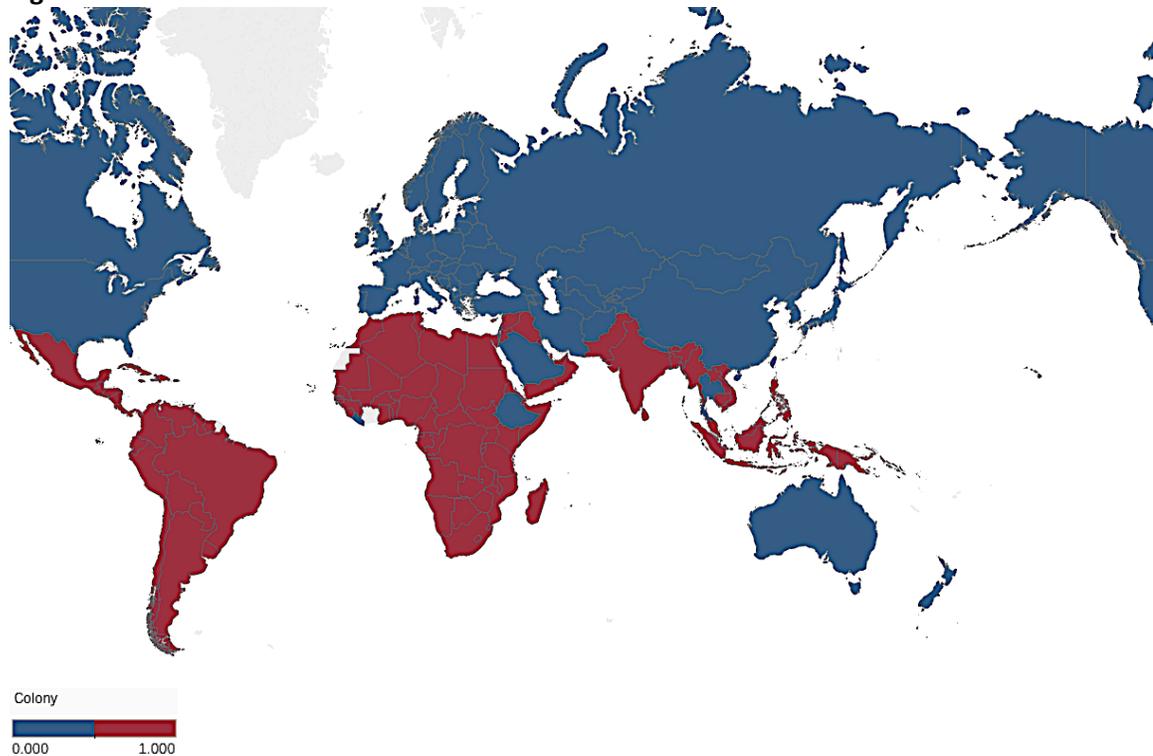
Figure 3.1.18: Arable land over the world



³² Data from the most recent year, 2015 (World Bank 2019).

- Colony is a dichotomous variable where 0 means country was never a colony and 1 means the country was a colony (Hadenius and Teorell 2007, Wahman et al. 2013, Teorell et al. 2018). Around 60% of countries in the dataset were colonized. In Figure 3.1.19, red shows countries that were colonized.

Figure 3.1.19: Colonies over the world



3.2 Cross-sectional analysis

The purpose of this study is to explain the effects of two dimensions of institutions, infrastructural power and inclusiveness, on three indicators of socio-economic performance: economic growth, income distribution, and human capital development. In this chapter, I will provide the snapshot of the current performance of all

the countries of the world according to the three socioeconomic indicators. I used three regression models³³ in STATA to test my hypotheses.

Throughout my research, I am arguing that the main determinant of the performance of any country is the institutional setting which has two dimensions: infrastructural power and inclusiveness. Hence the key independent variables will be Infrastructural Power Index and Inclusiveness Index. Both of these variables speak of some dimension of the state's power. On the one hand, infrastructural power involves the capacity of the state to enforce its will within its territory without conflicts. This dimension is meant to capture the degree of efficacy with which the state is functional and able to implement its policies. All else held constant, countries with more infrastructural power should have:

- Higher levels of economic growth.

However, the level of infrastructural power should not have a significant impact on either income distribution or human capital development. Infrastructural power is a necessary condition for any country to effectively enforce policies within its territory and function within stable conditions. However, for a country to have more equal income distribution and human capital development, inclusiveness is necessary. Inclusiveness involves the distribution of the power between the state and society. This dimension is meant to capture the degree of state power that is limited by society. Hence, all else held constant, countries with higher levels of inclusiveness should have:

- More equal income distributions and
- Higher levels of human capital development.

³³ Summary of dependent, independent and control variables can be found in Appendix, Table A.2-A.4.

The following is the basic econometric model I used to examine my hypotheses.

Equation 3.2.1: Basic econometric model

$$y_i = \beta_0 + \beta_1 ip_i + \beta_2 incl_i + \beta_3 other_i + \mu_t$$

where y_i is dependent variable of country i . The main right-hand side variables of interest are ip_i , Infrastructural Power Index of country i and $incl_i$, Inclusiveness Index of country i . The RHS Variable $other$ represents controls and u_i is the error term that consists of omitted factors. Controls used in my models are Ethnic Fractionalization, (*ethnic*) Arable Land (*land*) and Colony (*colony*).

Each country has both dimensions, so, in order to see the full picture, we need to look at the institutional setting as a whole. The argument I make throughout my research³⁴ is that the socio-economic performance indicators will differ across countries depending on the position of a country in the institutional matrix. More closely, this means the quadrant in which a country is positioned is based on the combination of the two institutional dimensions: infrastructural power and inclusiveness.

I expected that the performance of countries will vary across quadrants. I assume a country needs to pass through stages where the third quadrant is the most successful stage. I expected following performance outcomes by quadrant:

- 1. quadrant:** the worst performance in all socio-economic measures
- 2. quadrant:** the highest economic growth
- 3. quadrant:** the highest income distribution and human capital development.

³⁴ Recall Chapter 2.2. and Table 2.2.1.

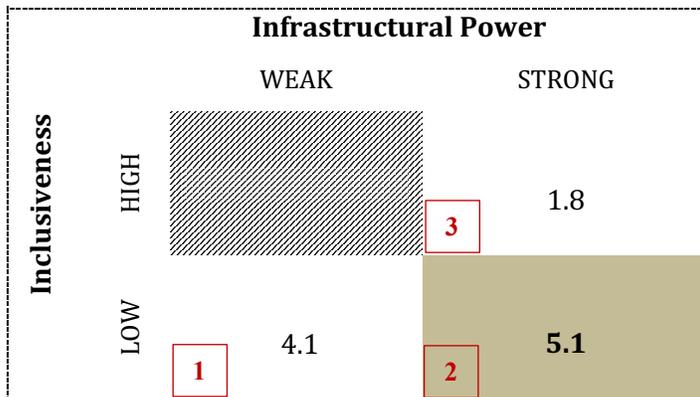
Economic Growth

In Model 1, I am interested in how infrastructural power affects economic growth. I am testing *Hypothesis 1*³⁵, to determine if there is an effect of these two institutional dimensions on the dependent variable Economic Growth. I expect that Infrastructural Power Index will have a significant and positive effect on the economic activity in a country, all else held constant. On the other hand, I expect that Inclusiveness Index will have a significant and positive effect on the income distribution and well-being of people in a country, all else held constant. When looking at the institutional matrix, I expect that countries from the second quadrant where infrastructural power is strong and inclusiveness low will be the fastest growing countries compared to countries in the first and third quadrants. Countries in the second quadrant have strong infrastructural power and low inclusiveness; there is a strong state reach and a low society-state power balance. In such countries I assume that income is concentrated in the hands of the few. Income is not distributed nor invested to improve overall social welfare. Hence, I expect economic activity in this quadrant to be the highest. 8 out of 10 countries among the fastest growing economies in my dataset are in the second quadrant. Some of them are China, Qatar and Zimbabwe, where each grows on average above 10% annually. When I compare the means of economic growth rates of countries in each quadrant, I find the highest percent growth in the second quadrant. Countries in second quadrant grow annually on average around 5%. Countries in the first quadrant grow only 1% less; however, this could be

³⁵ *Hypothesis 1: Countries with more Infrastructural Power should have higher levels of Economic Growth, all else held constant.*

attributed to lower economic base and the catch-up effect. Finally, countries in the third quadrant grow on average less than 2% annually. Means can be seen in Table 3.2.1.

Table 3.2.1: Mean annual Economic Growth rates by quadrant



While support for *Hypothesis 1* can be seen in Table 3.2.1, I also used OLS regression with Economic Growth as dependent variable and institutional dimensions as independent variables controlling for geography, history and culture. As infrastructural power is about functionality, stability and ability of the state to enforce policies within its territory, I expect that countries with stronger infrastructural power will have higher economic growth rates compared to countries with weaker infrastructural power, holding everything constant. I expect no significant effect of inclusiveness on economic growth.

Table 3.2.2: OLS Regression Estimates of Economic Growth

Dependent Variable: Economic Growth	
Infrastructural Power Index	0.002 (0.015)
Inclusiveness Index	-0.019*** (0.007)
Ethnic Fractionalization	0.095 (0.131)
Arable Land	0.000 (0.002)
Colony	0.096 (0.067)
Constant	0.563** (0.231)
Observations	154
R-squared	0.128

Standard errors in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.

According to OLS Regression Estimates (Table 3.2.2), Infrastructural Power Index is not statistically significant. Results could be distorted by the fact that countries with weak infrastructural power are undeveloped and what shows as high economic growth is simply the ‘catch up’ effect³⁶. Also, since most of countries have strong Infrastructural Power Index, it is problematic to show correlation in this way. Any country where the state has capacity to reach all parts within its territory and keep political stability is classified as having strong infrastructural power. In today’s world this is not very challenging to accomplish. Although some countries still struggle with this, most countries are stable and functional. Almost 80% of countries have achieved the top score on my infrastructural power index. The Inclusiveness Index is statistically significant and negatively correlated with Economic growth. I did not hypothesize a relationship between inclusiveness and growth, but when we look at the institutional matrix in Table 3.2.1, we can see great differences between the low and high inclusiveness quadrants (‘second’ and ‘third’), when infrastructural power is strong. This means that once a country is functional, inclusiveness significantly affects economic growth: higher the inclusiveness, lower the economic growth.

Income Distribution

In Model 2 (testing *Hypothesis 2*)³⁷, I explore the effect of institutional dimensions on the dependent variable Income Distribution. I expect inclusiveness to have

³⁶ In supplemental estimations, I controlled for the initial level of development (GDP per capita) and found a significant and negative association with economic growth, supporting the idea of a ‘catch up’ effect. However, the rest of the results did not change significantly from those reported in Table 3.2.2.

³⁷ *Hypothesis 2: Countries with higher levels of Inclusiveness should have more equal Income Distributions, all else held constant.*

significant and negative effect on income inequality, all else held constant. On the other hand, I expect infrastructural power to have no significant effect on the income inequality in a country, all else held constant. When it comes to the institutional matrix, I expect that countries from the second quadrant where infrastructural power is strong and inclusiveness low will be more unequal compared to countries in the third quadrant where inclusiveness is high. In the ‘second quadrant countries’, there is a strong state reach accompanied with a low society-state power balance, that leaves income concentrated in the hands of few rather than distributed. On the other hand, I expect that countries in the third quadrant will have the most equal income distribution. After calculating arithmetic means per quadrant, I find the lowest income inequality in the third quadrant, while countries in the second quadrant are the most unequal ones. Means of income distribution per quadrant can be seen in Table 3.2.3 (the lower the value, the more equal the income distribution).

Table 3.2.3: Mean Income Distribution by quadrant

		Infrastructural Power	
		WEAK	STRONG
Inclusiveness	HIGH		34.10
	LOW	37.08	40.31

Being merely a measure of functionality, I expect that infrastructural power will have no significant effect on how income is distributed within society. On the other hand, I expect significant and a negative relationship between inclusiveness and income distribution so

that when inclusiveness is high, there will be lower income inequality within society, holding everything else constant. In a country where there is higher balance of power between state and society, I expect there will be more equal income distribution. I used the OLS regression to test *Hypothesis 2*. In Table 3.2.4, you can see the estimates from the OLS Regression where Income Distribution is dependent variable.

Table 3.2.4: OLS Regression Estimates of Income Distribution

Dependent Variable: Income Distribution	
Infrastructural Power Index	0.214 (0.303)
Inclusiveness Index	0.385*** (0.141)
Ethnic Fractionalization	6.150** (2.421)
Arable Land	-0.106*** (0.039)
Colony	10.678*** (1.282)
Constant	22.982*** (4.754)
Observations	131
R-squared	0.480

Standard errors in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.

According to the regression estimates, infrastructural power is not statistically significant. On the other hand, the Inclusiveness Index has a statistically significant and positive effect on Income Distribution. For each one unit increase in Inclusiveness Index, we can expect 0.39 units increase in income inequality, *ceteris paribus*. This estimation where inclusiveness causes more inequality is *contra* my hypothesis, as I expected less inequality in more inclusive countries. However, as seen in Table 3.2.3, countries in the third quadrant (high inclusiveness) had the lowest mean of income inequality as opposed to the first and second quadrant countries (low inclusiveness). Hypothesis 2 is supported in that way. The control variables are statistically significant. Ethnic Fractionalization is

statistically significant within 95% confidence interval with a positive correlation with the dependent variable. This means that the higher the degree of ethnic heterogeneity, the more unequal the distribution of income, *ceteris paribus*. Arable Land is negatively correlated with the dependent variable and statistically significant within 99% confidence interval. For a one percent increase in arable land, there is 0.106 unit decrease in income inequality, *ceteris paribus*. Lastly, there is a significant difference (within 99% confidence interval) in income inequality between former colonies and countries that were never colonized. If a country was a colony, we can expect 10.7 units higher income inequality than if a country was not a colony, *ceteris paribus*.

Human Capital Development

In Model 3 (testing *Hypothesis 3*)³⁸, I test the effect of institutional dimensions on the dependent variable Human Capital Development. I expect that infrastructural power will have no significant effect on human capital development as Infrastructural Power Index measures functionality of state and effectiveness of state reach, which per se is not sufficient to affect human capital and have influence on the well-being of people. On the other hand, I expect significant and a positive relationship between inclusiveness and the human capital development so that when inclusiveness is high, there will be higher human development, holding everything else constant.

When it comes to the institutional matrix, I expect that countries from the ‘third quadrant’ where infrastructural power is strong and inclusiveness high will have the highest human development compared to countries in the first and second quadrants. In

³⁸*Hypothesis 3: Countries with higher levels of Inclusiveness should have higher levels of Human Capital Development, all else held constant.*

these countries, there is a strong state reach accompanied with high society-state power balance. I assert that in order for a country to achieve a high level of human development there needs to be a balance of power between state and society creating the bargaining power of the society and incentives for state to invest in human capital. I expect that in countries in the low inclusiveness quadrants ('first' and 'second' quadrant) the state will have no incentive to invest in human capital due to low bargaining power of society. After calculating arithmetic means per quadrant, I find the highest average Human Capital Development Index in the third quadrant, while countries in the first and second quadrants have more than 30% lower index compared to the 'third quadrant countries.' There is a small difference between the 'first' and 'second' quadrants as both have low inclusiveness, demonstrating that inclusiveness plays a crucial role in determining human development. You can see how means of Human Capital Development Index differ among quadrants in Table 3.2.5.

Table 3.2.5: Mean Human Capital Development by quadrant

		Infrastructural Power	
		WEAK	STRONG
Inclusiveness	HIGH	[Hatched]	0.88
	LOW	0.63	0.66

Note: Red boxes with numbers 1, 2, and 3 are placed around the values 0.63, 0.66, and 0.88 respectively in the original image.

Table 3.2.6: OLS Regression Estimates of Human Capital Development

Dependent Variable: Human Capital Development Index	
Infrastructural Power Index	0.001 (0.004)
Inclusiveness Index	0.012*** (0.002)

Ethnic Fractionalization	-0.170*** (0.034)
Arable Land	-0.002*** (0.001)
Colony	-0.117*** (0.017)
Constant	0.719*** (0.063)
Observations	152
R-squared	0.639

Standard errors in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.

According to OLS Regression Estimates (Table 3.2.6), Inclusiveness Index seems to have a significant and positive effect on Human Capital Development Index within 99% confidence interval, all else held constant. For each one unit increase in Inclusiveness Index, we can expect 0.012 increase in Human Capital Development Index. As expected, Infrastructural Power Index seems to have no significant effect on Human Capital Development Index, all else held constant. Controls also seem statistically significant within 99% confidence interval. Ethnical heterogeneity is negatively correlated with the dependent variable, meaning for every additional unit of Ethnic Fractionalization, Human Capital Development Index will decrease by 0.17 units *ceteris paribus*. Arable Land is negatively correlated to the dependent variable. For a one percent increase in arable land, there is 0.002 unit decrease in Human Capital Development Index, *ceteris paribus*. Finally, there is a significant difference in human development between former colonies and countries that were never colonized. If a country was a colony, we can expect 0.117 units lower Human Capital Development Index than if a country was not a colony, *ceteris paribus*.

CHAPTER 4: A CASE STUDY OF THE FORMER YUGOSLAVIAN REPUBLICS

4.1: Introduction

Overview

In the previous chapter, I presented results from a large-N statistical analysis of how the two institutional dimensions (infrastructural power and inclusiveness) have led a large sample of the world's countries to perform differently. Countries with high infrastructural power are effective in implementing decisions, but without the inclusiveness the growth they achieved is not equitably spread across society. The economic gains remain in the hands of the few unless society is actively involved and has bargaining power relative to the state. However, this statistical analysis provides me only a cross-national snapshot and does not help me answer the question of why countries chose the path they did and how those choices might be changing. To understand the issue in greater depth, I decided to do field research and collect primary qualitative data to provide the context to the findings from the statistical analysis. The field research was funded by the Open Society Foundations as part of a greater project called "Diverging paths of the former Yugoslav republics: inclusiveness and sustainable development" for which I received the Civil Society Scholar Award 2019-2020.

Following a most-similar method of case selection, the former Yugoslavia provides an ideal region for a natural experiment to further test my theory. I decided to take the case study of the former Yugoslavian republics to explore the institutional path of each of the former federal units and ultimately compare their developmental outcomes. We have six countries that emerged from one, sharing the same history but now different presents and futures. The data shows that there were always differences among the

former republics within Yugoslavia, but after the split the socio-economic differences increased even further (Stiblar 2013, 100). The federal units that were under the umbrella of one country have now been following different paths, some towards success, others towards stagnation. My research will leverage this unique situation in order to examine why the countries made the institutional choices they did and how those choices are affecting their present and future. Before the qualitative analysis, I will briefly cover how the former republics of Yugoslavia scored based on the data from statistical analysis for the period of 2013-2017. In Table 4.1.1, you can see where the countries fall in the institutional matrix.

Table 4.1.1: Institutional matrix of the former Yugoslavian republics

		Infrastructural Power	
		WEAK	STRONG
Inclusiveness	HIGH	[Hatched Area]	3 Slovenia Croatia
	LOW	1 Bosnia and Herzegovina	2 Montenegro Serbia North Macedonia

From my research, it is clear that while infrastructural power is necessary for a country to function, it does not affect income distribution or improve the well-being of its people.

Countries high on infrastructural power are functional and should exhibit economic growth. All of the countries from the former Yugoslavia³⁹ inherited strong infrastructural

³⁹ As mentioned in O’Brien (2010) Yugoslavia consisted of the six republics: Bosnia and Herzegovina, Croatia, Serbia, Montenegro, Slovenia, Macedonia and the two autonomous provinces Vojvodina and Kosovo (which were within Serbia).

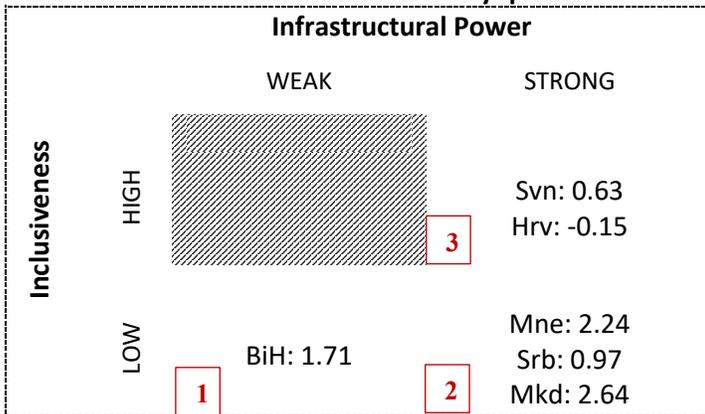
power from the former state, except Bosnia and Herzegovina, which has been locked into a self-sabotaging administrative structure ever since the Dayton Accords⁴⁰. As mentioned in Chapter 3 in the section speaking about Infrastructural Power Index, Bosnia and Herzegovina has a fragmented political structure with a central government that has little influence over state issues (major functions are at the Entity level).

As shown in Table 4.1.1, Bosnia and Herzegovina is in the most problematic quadrant of the institutional matrix, being low on both aspects. Montenegro, Serbia and North Macedonia have strong infrastructural power but low inclusiveness which puts them in the second quadrant. This means that these countries should have higher economic growth rates relative to countries in other quadrants. Montenegro and North Macedonia grow annually more than 2% on average. Respective economic growth can be seen in Table 4.1.2.

“Yugoslavia’s actual death spiral began with Slovenia’s and Croatia’s declarations of independence on June 25, 1991” (333). Even before this, there has been discontent among republics especially due to persistent need of the Serbian government to dominate.

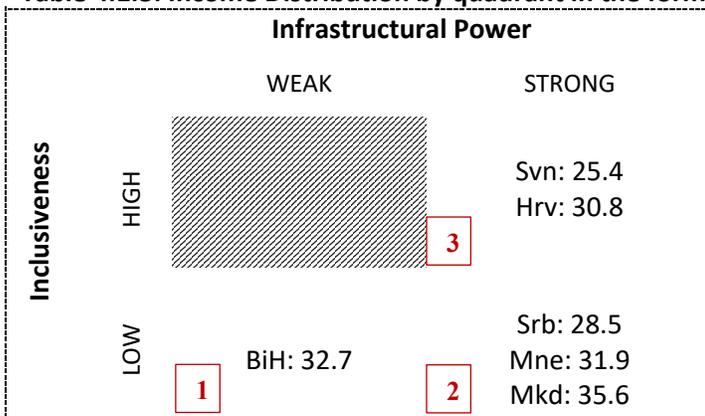
⁴⁰ The Peace Agreement signed in 1995 between Republic of Bosnia and Herzegovina, the Republic of Croatia and the Federal Republic of Yugoslavia (now Serbia and Montenegro) to end the devastating war in the region, and for independent countries to recognize each other’s sovereignty and borders. According to this Agreement, Bosnia and Herzegovina recognized ‘de jure’ two entities that existed as ‘de facto’ units: the Federation of Bosnia and Herzegovina and the Republika Srpska (OSCE 1995). In Bosnia and Herzegovina the head of state is the three-member presidency (each president for one of the three constituent peoples ‘Bosniak’, ‘Croat’ and ‘Serb’). ‘Bosniak’ and ‘Croat’ are elected in the Federation of Bosnia and Herzegovina and ‘Serb’ in the Republika Srpska. The three presidents rotate in being chairperson during a term (O’Brien 2010).

Table 4.1.2: Economic Growth Rates by quadrant in the former Yugoslavian republics⁴¹



As seen in Table 4.1.1, the highest in terms of inclusiveness are the EU member countries, Croatia and Slovenia. According to *Hypotheses 2* and *3*, countries with higher levels of inclusiveness have more equitable income distribution (Table 4.1.3) and higher human capital development (Table 4.1.4). Slovenia has the lowest income inequality in the sample of countries and the highest human development. Croatia is slightly behind Slovenia; however, Slovenia has been the EU member almost a decade longer.

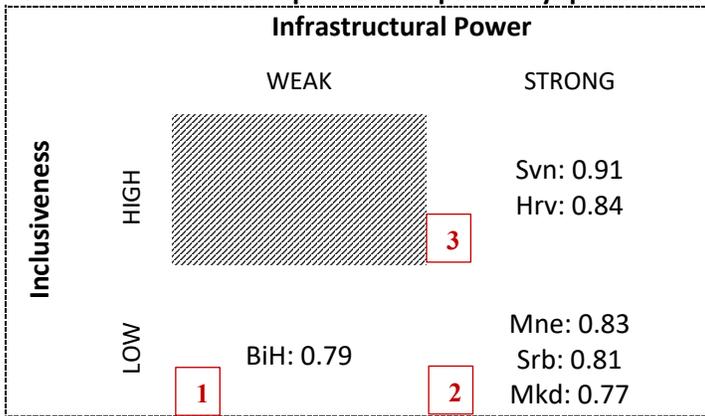
Table 4.1.3: Income Distribution by quadrant in the former Yugoslavian republics⁴²



⁴¹ In Tables 4.1.2-4.1.4 countries will be referred by their country codes: Bosnia and Herzegovina (BiH), Croatia (Hrv), Serbia (Srb), Montenegro (Mne), Slovenia (Svn), North Macedonia (Mkd).

⁴² Lower numbers mean more equitable distribution.

Table 4.1.4: Human Capital Development by quadrant in the former Yugoslavian republics



From the statistical analysis, we can clearly see the relationship between these institutional characteristics and socio-economic outcomes. What is less clear is why countries differ in these institutional aspects, that is, why do they have different levels of infrastructural power and inclusiveness? In order to answer this question, I visited six former Yugoslavian countries and conducted face-to-face interviews with representatives from academia and civil society. The purpose of these interviews was to get answers about the state of mind of the current situation within each country from various perspectives, and the opinions about directions in which the countries are moving. Are these countries strong in infrastructural power or authoritarian, and where is the line when strong is too strong? Is strong infrastructural power without inclusiveness inevitably authoritarianism? This chapter is meant to provide depth and context for the numbers. Why did countries such as Croatia and Slovenia pursue the path toward the EU and were faster to adopt inclusive governance than the other countries in the region? Inclusiveness clearly seems to be associated with improved well-being of people, but what led to this separation among the former Yugoslavian republics and is it still evolving?

Method

The example of Yugoslavia provides us with the great lesson of how strong infrastructural power not coupled with inclusiveness can impact socio-economic development in countries. Even though, it was clear from the data, what each country scored in each institutional aspect, it was less clear what those numbers really mean. In the case of Bosnia and Herzegovina, Infrastructural Power Index is 7 and Inclusiveness Index is 16.2. This means that Bosnia and Herzegovina is low in both institutional aspects. What is less clear is the context to add understanding to these numbers. How effective is government in enforcing policies? Is there transparency and inclusiveness in policymaking? Can civil society impact decision-making in a country? How do low values in the institutional aspects manifest in real life?

One of the greatest issues in transition countries is corruption⁴³. In this case, in former Yugoslavian republics, the executive of the central government is trying to directly take part in all activities. Where are checks and balances to correct such systemic failures? The current situation in countries could be a result of unsuccessful transition that left countries with weak institutional settings. However, this does not explain why some of the former republics are almost in the state capture situation⁴⁴ while others have been accepted into the EU. For example, Montenegro, as will be seen later in the chapter has been under the same political leadership for the last three decades. Does this mean that Montenegro had weaker institutions altogether, or simply had determined political

⁴³ Tanzi (1998) speaks about spread of corruption especially persistently in developing and transition economies. This kind of corruption is difficult to eliminate without reform of the state.

⁴⁴ State capture is "situation where powerful individuals, institutions, companies or groups within or outside a country use corruption to influence a nation's policies, legal environment and economy to benefit their own private interests" (Transparency International 2018).

leadership that exploited the flawed system and took over control of the system? Did the steps the republics made in the state building process after the dissolution of Yugoslavia determine the current situation?

In order to find more in-depth answers about these issues I visited six former Yugoslavian republics and did a series of interviews with non-government organization representatives. For three months, in the period from September through November of 2019, I visited the capitals of six countries. Beginning in September, I conducted interviews in Sarajevo and Zagreb; in October in Podgorica and Skopje; and finally, in November, in Ljubljana and Belgrade. Representatives of non-governmental organizations is a broad category, so within this I decided to distinguish between five types of respondents to bring in more perspectives and cover the issue in greater detail. In each country, the sample consisted of the same type of respondents: an activist⁴⁵, a civil society organization representative, an international institute representative, an investigative journalist, and a professor⁴⁶. I identified five respondents in each country using snowball sampling. Sharing a common history also means that people across borders know each other and that people and organizations in the same or related fields collaborate. While looking for my subjects, I begun by contacting organizers of the established civil society network that operates throughout the whole region and gathers activists, journalists, civil society organizations and international institutes around

⁴⁵ Activists differ from CSO representatives in that they do not have an organizational affiliation.

⁴⁶ In order to preserve the anonymity of interviewees, from here on I will refer to respondents according to this key:

- Activist as Respondent A
- Civil society organization representative as Respondent C
- International institute representative as Respondent I
- Investigative journalist as Respondent J
- Professor as Respondent P.

various projects and initiatives. The respondents I interviewed work in visible and active positions high up in the organizations in each country. The academic representatives I interviewed are professors that work at the major universities in the capital cities and are known for their expertise in the area, often appearing in media as analysts and commentators on political and socio-economic issues.

The interview⁴⁷ consisted of open-ended questions that could be categorized into four sections. In the first and second sections I used my theory on infrastructural power and inclusiveness to guide the conversation with respondents. In the last two, I asked about inclusiveness trends over the world and within the Yugoslavia region and finally we discussed socio-economic differences across Yugoslavian countries. The outline of the interview is provided below⁴⁸.

1. To what extent do you think institutions in your country are functional and effective?
 - Ability of the central government to maintain political stability without violence and conflicts within its territory
 - Ability of the central government to enforce policies within its territory
 - What could be improved in terms of government effectiveness
2. To what extent do you think your country is inclusive?
 - Public officials using their office for private gain
 - Accountability of executive
 - Independence of judiciary system

⁴⁷ As the research involved interaction with human subjects I needed to conform with ethical standards and procedures and get IRB approval. I got IRB Approval in July, 8 2019. Study number is 19-0261.

⁴⁸ The interviews were conducted in the local language (Bosnian/Croatian/Serbian) or English, depending what was more comfortable for a respondent.

- Corruption in public institutions
 - Transparency of policymaking
 - Election process
 - Civil liberties
 - Influence of civil society over the state's decision-making
3. What are inclusiveness trends worldwide and across the former Yugoslavian states?
- Divergence among the former Yugoslavian republics
 - Worldwide trends over the last decade
4. How does the institutional setting affect socio-economic performance?
(economic growth, income distribution, human capital development)
- Divergence among the former Yugoslavian republics
 - The greatest roadblock in your country
 - Recommendations

The major strength of this research is that it provided an in-depth view on how non-governmental actors perceive how government institutions work, and to what extent society has any influence in decision making. I focused on a sample of respondents working outside of government but familiar with the work of the government so that they can provide an assessment of the situation. Collecting qualitative primary research data allowed me to illuminate findings from the quantitative analyses. It helped me find information I did not even know existed while looking at the numbers. However, if I was

to truly see the full picture, I would need to hear the other side as well. In that sense, the weakness of this field research is that I did not broaden it to include talking to government representatives to ask them the same questions, and to compare the two sides. However, in this research, I was interested to hear what people from outside of government think about the effectiveness of a government in enforcing policies and inclusiveness of a society in the whole process. This influenced the questions, themes and analysis. I used a top down (theoretical thematic analysis) approach led by the research question (Maguire and Delahunt 2017, 3354).

In the qualitative analysis, we are trying to find patterns in data and understand it better, but the phases of analysis do not necessarily follow a linear order, we move back and forth in the dataset and write throughout the whole research process (Braun and Clarke 2006, 15-16). However, there are some general guidelines. Braun and Clarke suggest familiarizing with the data, developing codes and then searching for themes. According to Maguire and Delahunt (2017, 3356), “a theme is a pattern that captures something significant or interesting about the data and/or research question”. After determining and reviewing themes, Braun and Clarke (2006,16-23) say the final phase is producing the report. Even though I used top down approach, I allowed myself to be guided by the data as well. As Boyatzis (1998) argues, thematic analysis is not a rigorous process, so there is a room for a personalized approach. Flexibility of this method allowed me to collect meaningful data and cast a new light on my research question. However, ‘flexibility’ of the qualitative analysis might raise questions of reliability to those more accustomed to quantitative analysis. In order to assert my findings are valid and consistent, I tested intercoder reliability to see if an independent rater would come to

the same conclusions as I did. The rater was given two out of five interviews per country (40% of total interviews) and the list of themes and subthemes for each country. The intercoder reliability check for each country can be seen in Appendix Table A.6 through Table A.11. The lowest percent of agreement was in cases of Bosnia and Herzegovina and Montenegro with 83.3% agreement rate or 10 out of 12 ratings. This was followed by North Macedonia, Serbia and Slovenia with 91.7% agreement rate or 11 out of 12 ratings. Finally, Croatia had 100% agreement rate or 12 out of 12 ratings.

The purpose of this research was to illuminate why countries have different developmental outcomes. If it is the institutional setting that determines a country's socio-economic performance, how does a country end up at a certain level of the two institutional dimensions (infrastructural power and inclusiveness). Eventually, how do these aspects manifest in real life? The overarching question that is rooted in all the themes is why some country succeeds while another fails. Hence, the overarching theme 'Where a country is heading, is rooted in themes: Infrastructural Power, Inclusiveness and the Yugoslavian legacy.' In the following pages, I will present these issues for the case of the former Yugoslavian countries and provide context for the quantitative analysis presented in Chapter 3. After each country, there will be a thematic map that summarizes the major themes and subthemes found in the qualitative analysis for that particular country.

4.2: Bosnia and Herzegovina

Infrastructural Power

Bosnia and Herzegovina is not an ordinary case by any means, and the response of every interviewee to any question about institutions was always given with the

addendum of ‘we have a very complex administrative structure’. Evidently, after Dayton Accords, Bosnia and Herzegovina ended up with a unique institutional structure that cannot be quite categorized into any known form. Can Bosnia and Herzegovina function when the form in which it exists is inherently dysfunctional? Regardless of this issue that characterises the institutional framework of the country, I encouraged respondents to look beyond this issue and critically evaluate the whole system.

A common point of every respondent was that the central government has a very limited role and that the institutional network is very fragmented. Enforcement is low, but mostly due to the limitations from the structure which has ineffectiveness as a by-product. According to Respondent A, Bosnia and Herzegovina has one of the greatest implementation gaps. There is always the explanation by the authorities that although something is prescribed by the law, there are simply no resources to enforce it. This explanation is generally and very often used as an excuse for not enforcing some policies. According to Respondent A, functionality is made difficult due to too many overlapping jurisdictions, lack of political will, politically chosen employees in the public office, and the system incentivizes ineffectiveness. Overall, central government has no actual jurisdictions, and the power lies in the entities. Respondent P argues that implementation is a great issue as the state does not have mechanisms to force anyone to implement anything, entities are pursuing their own strategies, and there is no readiness to accept sanctions from the central government. The institutional setup is such that entities, not the federal government, are the major actors. According to Respondent C, political elites within entities have full control in their parts. Within one of the entities, Republic Srpska

there is a very centralized structure, while Federation of BiH⁴⁹ is more decentralized.

Overall, there is unclear definition of responsibilities and functions, especially in Federation of BiH. According to Respondent I, some cantons in Federation BiH are very effective in terms of enforcement while others are in paralysis.

Respondent P argues that it is not possible to control internal security and ensure political stability within Bosnia and Herzegovina due to many conflicting interests that do not seek consensus but rather seek only to block. There are politics of confrontation around power distribution between the conflicting political blocs. Mostly, respondents found conflict imminent within the system due to the Constitutional arrangement. However, Respondent J argues that contrary to many opinions, this resolution no matter how complicated, has shown to be relatively useful and ensured some stability as “we did not return to conflict state at least”. The power sharing setup and veto option should have ensured that there is no conflict, that to have any important decision, would require consensus between the three ethnic groups. Unfortunately, the system is abused and due to clashes of political interests, there is no will for consensus, just blockage. According to Respondent C, a party wins by blocking, not compromising, which is used as a political tactic. Common opinion of the respondents was that there is a parallel structure, where the party elites perform political functions outside the institution. Real power is outside of the institutions, in the hands of political elites. These parties plant "their people" within the institutions not based on meritocracy, but rather family ties and political fealty, to ensure direct influence over formal institutions. These employees being politically appointed act according to party interest, not country interest.

⁴⁹ In Federation of Bosnia and Herzegovina, canton is a middle (regional) level between the entity and local level governments. There are ten cantons in FBiH.

According to all respondents, a great roadblock in Bosnia and Herzegovina is the muddy sedimented political scene where there is circulation of elites with the old ‘modus operandi’ remaining. According to Respondent I the situation is stable but still explosive, “stable instability”. The mindset of the political elite is that the more they repeat a certain story, the more it becomes reality, “this story is repeated for over 20 years that Bosniak, Croat and Serb cannot go back to living together, ethno-politics does not help us leave the straitjacket, we are in survival mode”. The old narrative of ethno-nationalistic politics is being used to encourage separatism: ‘if we do not do this, they will do that’. According to Respondent J, constant re-opening of the questions about the Dayton Accords, the constitutional reform rhetoric is used to divert attention away from socio-economic reform. A common opinion of the respondents is that stories of historic conflicts and hate speech is deliberately used by the political elites. This is illustrated by Respondent C who argues that political elites, which are essentially ethnic elites, create tensions as they benefit from keeping the status quo as they get to keep the power they have. Hence, they keep tensions as the end in itself, not a means to an end. Vague strategies help keep up the pretence, without the actual goal, but to keep the power.

Inclusiveness

Common opinion among respondents was that there is no clear-cut difference between branches of government. Institutional rules are bent to political will. Most of the decisions are made outside of the formal system, in informal deals within the ‘shadow system’. According to Respondent C, political leaders of three major ethnic groups agree, and then they fictitiously offer policy for deliberation. But the deal has already been done

behind closed doors among the key actors who dominate the whole scene. As all decisions are subject to the political elites from three ethnic blocs, there is something like authoritarianism within each bloc. Respondent P says that power is concentrated in the hands of the executive which is a leftover from the former Yugoslav regime. Lack of a clear distinction between branches makes the roles of the legislative and judicial branches vague and overlapping with the executive branch. There is no transparency in policymaking. A common remark of the respondents was that a great number of laws are brought under an expedited procedure without public debate. Respondent A argues that the important laws should not be brought under the expedite procedure and mentions the Sigma ranking⁵⁰ where Bosnia and Herzegovina is shown with more than half of its laws brought under the expedite procedure.

According to Respondent J, Bosnia and Herzegovina is a paradigmatic example of captured institutions as political parties own everything and offer protection for whoever they want and for anything. Respondent P finds the lack of checks and balances between legislative, executive and judicial branches of government as the great problem as it keeps the country in a vicious circle. According to Respondent C a measure of the independence of the institutions would be whether they can process political corruption. Corruption is ingrained in the system. Respondent P argues that the executive should be accountable to the legislature, which should be accountable to the people. However,

⁵⁰ "SIGMA (Support for Improvement in Governance and Management) is a joint initiative of the OECD and the European Union. Its key objective is to strengthen the foundations for improved public governance, and hence support socio-economic development through building the capacities of the public sector, enhancing horizontal governance and improving the design and implementation of public administration reforms, including proper prioritisation, sequencing and budgeting. Our team of around 20 experts provides assistance in six key areas: Strategic framework of public administration reform, Policy development and co-ordination, Public service and human resource management, Accountability, Service delivery, Public financial management, public procurement and external audit" (OECD 2019).

power is concentrated in the executive branch, and the lack of accountability of the executive continues to be one of the greatest problems in the region. The Prosecutors' office and the judiciary are extremely inefficient in dealing with anything, especially high profiled cases. In Bosnia and Herzegovina there is top down hierarchy ingrained in people after Tito's time. According to all respondents, democratization of the institutions is far in the distance. According to respondents, the process of the elections is very questionable, free yes, but not fair. People are discouraged from voting and untrusting of the whole process. According to Respondent C, some political leaders are openly threatening people that they will lose jobs if they do not vote for them, and also promise jobs in their pre-election campaigns. Respondent P adds that elections do not provide an even playing field as major political parties have the advantage of controlling the media, public institutions and companies. In all of this, civil society is weak, scattered and has limited reach, and according to Respondent C, religious communities are the ones that have the greatest influence on the ethnic/ political elites.

Yugoslavian Legacy

According to the respondents, the legacy of the old system of the party state is still ingrained in the mindset. After the breakup of Yugoslavia, traces of the old system inevitably continued to exist. Respondent I argues that the 1990s War was a product of social transformation and reorganization. On top of the pyramid, there were new elites that suddenly got rich. The class change was fast and 'overnight'. A fight for a place in the new pyramid began, and it all became about who will become part of the new system.

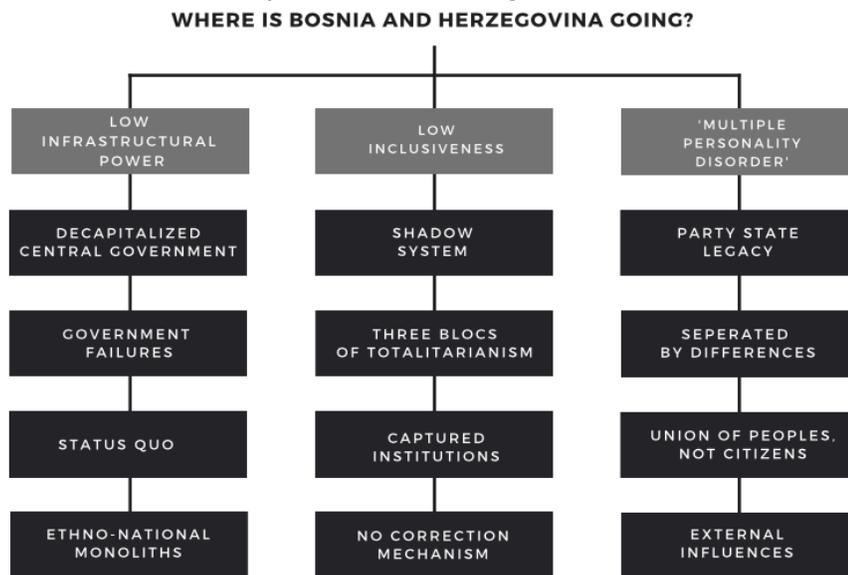
Transition was too fast without the necessary capacity for such reforms, and more time is needed for institutions to develop from a socialist regime to a democratic one.

Bosnia and Herzegovina is somewhere between East and West, enriched by many cultures, which instead of being an asset became a liability. Respondent J argues this is because the country changed structure many times, which caused identity confusion without creating stable pillars. After the split of Yugoslavia, a new struggle in Bosnia and Herzegovina begun with the old-new multiethnic rhetoric which has been used by political parties to keep the power and remove focus from the socio-economic reforms. Political elites divided into ethno-national blocs worked against each other instead of compromising which paralyzes the whole country. According to Respondent C, a clash of interests and no consensus makes it difficult to set and achieve any particular goal. A common point of the respondents was that there is a need for a unified vision, emancipation of political elites where politics would stop being a means to itself. Respondent A argues that it is very problematic that there is a union of peoples, not union of citizens. The traditional/conservative views are ingrained in society and it became a norm that ethnic groups are carriers of sovereignty. According to Respondent C, ideology, where nationality is on pedestal, creates the atmosphere where xenophobia and racism are prevalent. Anyone who is different, is considered a threat. This creates a cult of 'national monoliths' where civil society is only cosmetic to create the perception of democracy.

A common point among respondents was that the differences among the ethnic blocs were more reconcilable when the international community had a more active influence through the Office of High Representative. According to Respondent J, after

this influence decreased, Bosnia and Herzegovina was left with a great gap, creating a vacuum of power that was readily filled by the political elites. Without an actively engaged moderator, no one was there to insist on effective policymaking and help moderate between Bosniaks, Croats and Serbs. Hence, the turning point was after 2006, with the failure of the “April Package”⁵¹. Today the Office of High Representative is still existing but more by inertia and shows a false image of activity. A common point among respondents was that the gap left by a lack of the EU and USA influence was filled by Russian and Turkish presence, moving the country in a different direction. The Dayton Accords co-implementors, Serbia and Croatia, are also continually meddling in the internal issues of Bosnia and Herzegovina. In a way, Bosnia and Herzegovina is never left by itself. The external presence is an integral part of its existence. In Figure 4.2.1 you can see thematic map for Bosnia and Herzegovina.

Figure 4.2.1: Thematic map: Bosnia and Herzegovina



⁵¹ The April package that was supposed to change the political architecture in Bosnia and Herzegovina, but failed by two votes. It was a set of constitutional amendments meant to strengthen the role of the state, increase the role of the parliament, introduce one instead of three presidents, improve minority rights, clarify the ‘vital national interests’ rights, correct executives and legislative roles all together (Hays and Crosby 2006).

4.3: Croatia

Infrastructural Power

Common opinion of respondents from Croatia was that government power in the country is too centralized. Although there have been initiatives (beginning in 2000s) that brought comprehensive changes in the form of functional decentralization, power has not really been sufficiently delegated. Moreover, respondents say that there are considerable differences in capacity among the local units, the farther one goes from the capital city of Zagreb, the less capacity and enforcement there is. Due to these differences in capacity, many constitutionally assigned tasks are not performed by the local units as they lack instruments for the enforcement. Consequentially, many responsibilities overlap and while central government is overburdened, local governments are weak and ineffective. Respondent C argues that such a lack of capacity and clarity between jurisdictions slows down the whole process and makes it less effective. Respondent J says that not only there is vagueness in who does what, but that also many policies are very imprecise, conflicting and vague, which to some degree is due to incompetence, but to great part intentional and politically orchestrated.

All respondents agree that apart from objective problems existing in terms of lack of capacity, the political will is influencing government effectiveness to a great extent. This is illustrated by Respondent P who says that political actors have more power than regulative bodies, which is characteristic of all Yugoslavian countries. According to Respondent J, policies that suit major political interest have enforcement priority. All respondents share the opinion that public office is political rather than technocratic. This is illustrated by Respondent A who argues that the choice of public officials is according

to their political suitability rather than competence. This practice makes government institutions burdened by negative selection of employees. For fear of losing their positions, officials act according to party interest not the public interest.

According to all respondents, there are a few major political blocs competing in Croatia. In their interplay, the welfare of society becomes less relevant. According to Respondent I, there are some interest groups outside government affecting the enforcement. The most influential are the veteran groups from the Homeland War⁵² that are a very powerful force with high political influence pressuring the authorities. This creates a problem when the interest of this group is contra the interest of the rest. Unfortunately, the eyes of politicians are not directed towards common welfare. All respondents share the opinion that political elites are more interested in winning elections rather than focusing on progress of the country. Respondent J argues that political elites are short sighted and that they have narrow goals. Respondent P finds political elites as a great blockage to development arguing that politics is more regressive than progressive, and that political elites are more preoccupied with fighting each other than having a higher development strategy.

Inclusiveness

According to all respondents, political influence is in every pore of the institutional framework. There is no politically independent institution which consequentially creates a great problem of a systemic lack of a correction mechanism. Common opinion of respondents is that accountability is almost nonexistent, at least

⁵² The Croatian War of Independence (1991-1995) is also referred to as the Homeland War which has been mentioned in Croatia ever since as “just and legitimate defence...to defend its internationally recognized borders against Greater Serbia’s aggression” (Subotic 2010, 90-91).

toward society. There is accountability within party toward the political superior. Judiciary system remains as one of the greatest problems in the country. This is illustrated by Respondent I who argues that not only is the judiciary politically influenced and ineffective, but also courts across the country are not harmonized in practices. For example, a person can get a lower sentence in some parts of Croatia for the same crime as opposed to other parts. There are also many cases, especially high-profile ones, where the sentence would just disappear, and the case would be filed back to the very start. Even if a case gets to the court, it may take several years to get a ruling, sometimes even decades. Respondent C adds that many cases get un-proportionally mild sentences compared to the crimes in question. According to respondents, most major media outlets are not independent, and very often there is even fabrication of historical facts. Respondent J mentioned a few cases of arrests of independent journalists that were criticizing government. They were brought under the charge of offending national interest. This meant that the police force is also under the control of politics.

A common point of respondents is that most important policies are brought behind the closed doors, outside the public arena. Theoretically there are inclusive and transparent policymaking procedures, but practically they are merely declaratively fulfilled. This is illustrated by Respondent J who gives the example of public debates about certain policy, stating that none of the suggestions seem to be heard or actually considered and adopted. There are public debates, but they seem to be only pro forma. Great number of policies are actually taken under the expedite procedure, which is covered up using the 'alibi' that it is for the 'EU related policy' hence the urgency. Respondents argue that overall, it is difficult to do anything if you are not affiliated with

major political parties, so what some independent NGOs are trying to do is create public awareness instead by speaking to society directly. According to Respondent C, although once Croatia joined the EU, civil society was acknowledged as having some role in the society, in practice civil society still has no real institutional network and actual reach, and mostly keeps acting through protests. Respondent C adds that civil society organizations that have higher influence are the ones considered close to the political elite and questions if these organization could be called civil society.

When considering the overall situation in Croatia, respondents were reluctant to call it a democracy. According to Respondent J, the greatest issue in public institutions is not acting, the ‘sin of not doing’. The culture of ‘acting’ is discouraged, “officials who know of some criminal activity, even if not directly doing it, should be punished for not calling it out, as by not acting, they work against the society; they do not understand the concept of public serving, the concept of the higher good”.

Government is normatively against violence, but in so many cases does nothing to stop it, for example in the case of minorities. According to Respondent J, the violence against ethnic minorities is tolerated, and according to Respondent C ‘true Croats’ are openly critical of people ‘not truly Croats’. Respondent I labels Croatia as very homogenized country, and mentions that there were more foreigners in the period of Croatia under Yugoslavia than now. A common opinion of respondents was that pluralism is yet to be developed, and that what they have is not a pluralistic society. According to Respondent P, democracy was never really at a high level in Croatia and miniscule shifts in immature political options are not helping at all. Society is not given much space which is discouraging in itself. Respondents agree society should take a more

active role; however, this should be done in more effective way. Respondent P suggests that civil society needs to be educated about democratic participation: “people should be educated on social/civil responsibilities and rights, they need to learn how to be part of democracy, how to practice democracy.”

Yugoslavian Legacy

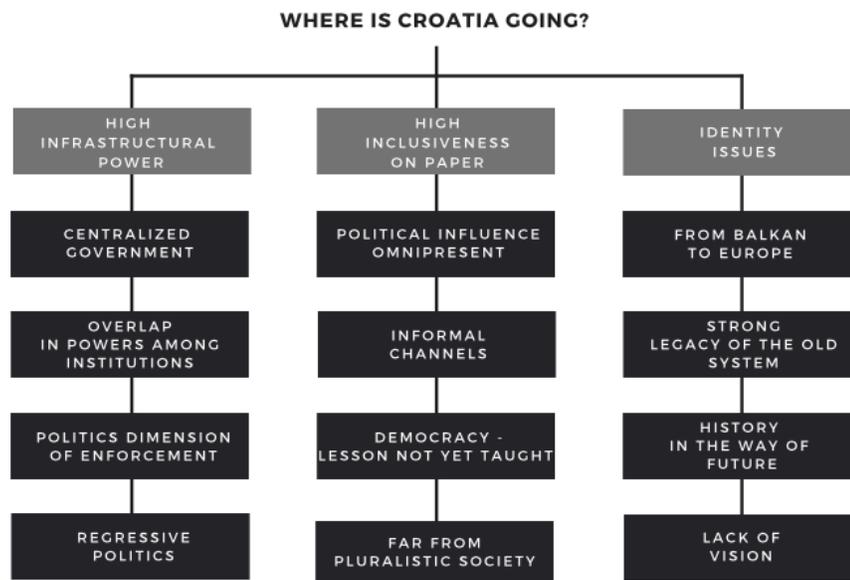
According to all respondents, regardless of being part of the EU⁵³, Croatia is still influenced by the old system and a strong Balkan culture. According to Respondent I, Croatia never wanted to accept belonging to Balkans and was always trying to fit into the Western world. According to Respondent I, the EU accession was presented to people under the two major slogans, “we will live better” and “we will return to where we belong, our Western heritage”. Respondents agree that some of the greatest improvements were made in the period between 2010 and 2013 (before joining the EU). Additionally, the greatest success in fighting corruption was in the same period. Respondent I argues that the golden age of civil liberties was also before the EU accession, while today, 6 years after, “we are back to discrimination (in practice, theoretically we are nondiscriminatory society), and mostly the minorities”.

All respondents put a great emphasis on the legacy of communism that left strong clientelist structures, old elites in place and kinship mentality. According to Respondent J, the institutions Croatia has today were inherited from the former Yugoslavian era. This means that the country kept in place the skeleton of the old structure and added traces of democracy later. This is illustrated by the words of Respondent J who says that “during

⁵³ Croatia was part of the 2013 EU Enlargement.

last 30 years, we have fictive state, not real institutions. We live in a mock state, it reminds me of cargo cult: when US was fighting Japan and settled base on some native land, afterwards natives built mock airport in hope they will attract others. That is what we did.” According to all respondents, inclusiveness suffered backsliding especially in the aftermath of the EU accession. This is a paradox as one would think that Croatia reached necessary level of democracy in order to be accepted under the EU umbrella; however, this is not the case. Respondent J argues that political elites use emotionally energized historical topics to seduce voters who vote for an idea and according to beliefs, rather than programs. Such populist rhetoric is counter effective as political elites avoid making some necessary policies that are against popular wishes, to avoid provoking discontent of the people. Common opinion of respondents was that political elites are preoccupied with elections and lack the vision for the country. While fighting each other for power, the country remains with neither a steering wheel or compass.

Figure 4.3.1: Thematic map: Croatia



4.4: Montenegro

Infrastructural Power

According to all respondents, there is authoritarian regime in Montenegro with the perfect mechanisms of control concentrated in the political leadership. This is illustrated by Respondent A that the central government initiates restrictive policy changes at any sight of autonomous behaviour. All respondents agree it is difficult to improve anything for anyone not affiliated with political elite. There is little room for resistance due to already established extremely high control mechanisms. So, there is no question if the central government has power to enforce policies, but rather if there is willingness to do so. As Respondent I says, “capacity does exist, but enforcement is selective”. Even if there is willingness among some officials, these are a minority and cannot do much. Decisions come from the top. According to respondents, political leadership seems to believe they are above the law and have no fear that anything will disrupt their power. Respondent I argues that political stability is maintained under cover of NATO.

There has been the same political leadership in power for the last 30 years. According to Respondent P, the fact that there has been no transition in power for 3 decades means that there has been no democratic transition. Even if there was some sign of transition, it was mild and insufficient. Respondent P argues, “oligarchical socialism changed to oligarchical capitalism”. Having 30 years of practice, political leadership is very experienced and well-practiced in controlling institutions and exploiting them to fulfil their own interests under the ‘façade of democracy’ which the outsiders are believing in. Respondent P adds, “this is ‘camera obscura’, a dark room”. Respondent I

adds that the mindset of Montenegro is almost fixed in stone, people do not know of different ways than this.

In Montenegro there has been long line of homogenized political leadership with minor turbulences within leadership now and then, when part of the same clique went separate ways. While small number of clashes are due to differences in opinions, most clashes are more like mafia arrangements. This is illustrated by the affair concerning illegal activities in which a 'scapegoat' from the leading party is hiding in Serbia now, where he fled during the court case in which he was sentenced for high corruption. All respondents speak of the criminal aspect of Montenegro, not hesitating to call it a Mafia State. This is illustrated by Respondent P who mentions article by Moisés Naím⁵⁴, who classified Montenegro among 10 examples of a Mafia State where there is direct fusion of criminals and institutions. Political leadership is a double player, at the same time, the head of organized crime and the head of government.

Common opinion of respondents was that the state is captured. A network of strong command and control has been built in and enforcement is dependent on willingness rather than capacity. Willingness depends on political interests. Respondent P rates current government as 5 in effectiveness, but 0 in public welfare. Corruption is a problem for an unrestrained leader. Respondent P draws from Aristotle arguing that power has a way of corrupting those in power, who when not controlled/overlooked begin pursuing their own interests at the cost of public welfare. According to Respondent I, a major roadblock is the state of mind of public institutions where no public wellbeing

⁵⁴ Prize winning columnist and author of the renowned books *The End of Power* and *Illicit* in the field of global politics and economics (Moisés Naím n.d.).

is considered. During these decades, society has learned that party interest is above everything.

Inclusiveness

A common point of respondents was that public office is mechanism of employment and a well-oiled machine that produces voters. Employment in public office is based on party affiliation, not expertise. Public officials work within limits approved by their party and posts are traded as in any economic exchange. All respondents showed a great distrust in public office saying that for 30 years it has not been used for public good. According to respondents, public office is not a means to an end (not serving society), but rather an end in itself (control mechanism and employment agency). Respondent J conducted field research about public employment and found that people found public office or publicly owned companies as the most attractive jobs. According to this research, people who had such employment did not like their jobs but would not want to leave it because of the security and saw no better alternative. When asked how to improve public office, common opinion of respondents was to choose small number of efficient over a much large number of inefficient units/employees.

According to all respondents, corruption is like ‘house rules’ on all levels, service for service is exchanged commonly, and without internal connections it is difficult to access basic healthcare or education services timely. Respondent I argues that corruption on the lower level is negligible, and what is more alarming is higher level corruption. Political elites created a system where cheating and corruption became the norm. Nepotism is widespread with cases where a whole family is employed either in public

offices, the central bank, or in projects initiated by government. Respondents share the opinion that due to the autocratic regime, there are no actual checks and balances. In theory, the executive holds accountability, but there is rarely full prosecution in practice, with the exception of some cases of high corruption prosecution prior to joining NATO. In many instances even if the court makes a ruling, there is no enforcement of the sentence. These cases are more instruments either to fake the nonexistent correction mechanism or to punish misbehavior within party. According to all respondents, the judicial system and prosecutor's office are politically influenced. There are individual judges who try holding to their ethical commitments, but they are more exceptions to the rule. Everyone is afraid to stand out. This is illustrated by Respondents I and J who mention that people who started investigating the system are fired, threatened or attacked. Respondent C argues that on the EU accession path, organized crime and high corruption are the most problematic areas to fight. According to Respondent I, the political elite is using organized crime as the instrument in achieving their goals (affiliation with criminal groups cannot be proven, but criminal groups are not punished, they still operate and never work contra government interest).

When asked about transparency and inclusiveness in policymaking, respondents distinguished between how things appear to be and then how it is in practice. Theoretically, civil society is given room to express their opinion, but this is more to satisfy a norm than to give society an actual space to act. This is illustrated by Respondent J who gives the example of the commission monitoring the media. In the commission, there are five media and NGO representatives and six government representatives. The six can always out vote the five. According to Respondent C impact

regulatory assessment is often skipped or irregularly done. In the Initiative for medium term planning (three year period) that should evaluate where the country is going during a term, reports varied over institutions depending on the individual culture in that institution, and issues presented were selectively chosen. Also, there was no transparency in evaluation, for example, in a report there might be a percent of accomplished and unaccomplished goals, but without the actual list of which goals were accomplished and which not. According to Respondent C, most documents NGOs want to access are declared confidential. Respondents C and J argue that transparency exists pro form as part of the strategy for the EU accession. Many changes were made to make system look more democratic, but on the ground reality looks different. The media is increasingly scrutinized with new more restrictive laws further limiting media freedom.

There were great protests in the spring of 2019, where civil society, activists, and various NGOs were going out every Saturday to show their discontent with the government. However, people became demotivated after some point as nothing was changing. There were fewer people each subsequent Saturday. According to Respondent A, although extremely dynamic and engaged, civil society is merely indirectly influencing the processes. Public discussions are very controlled and even if there are NGO representatives present, they are always in relatively small numbers and cannot out vote government representatives. In essence, in policymaking, there is some room for influence, but not nearly enough. Respondent J argues that too much effort is needed for anyone outside the political elite to accomplish even a miniscule step. As Respondent C said, “civil society is feeling like Don Quixote.” Society is demotivated to invest so much energy for such a small change.

Yugoslavian Legacy

When asked about legacy from the former country, all respondents mention that during Yugoslavia, Montenegro was relying on central planning and receiving aid from the central government. According to Respondent I, this fact created the image later on that Montenegro is unable to do anything by itself. The fact is that Montenegro did not have its own capacities, strategic plans, as there was that ingrained mindset of dependency for the aid without building and developmental goals. This is illustrated by Respondent A who says that Montenegro has very young educational institutions since before anyone who wanted to be educated needed to go to Belgrade or elsewhere in the region. Although a great number of people from Montenegro held positions in the Yugoslav government this meant more for those individuals and the country received no benefits from these isolated cases. According to Respondent P, when evolving from the Yugoslavian single party system, Montenegro moved to another single party system only under a different label; “from one bad to even worse system that successfully misuses state institutions to not legitimately pursue private interests”. According to Respondent I, before the referendum for the independence⁵⁵, there was less transparency, but society did not mind as they thought this was temporary situation that will bring liberty in the future. “We all thought it is for the greater good, we gave up power giving it in the hands of the few to see the independence of Montenegro, but that power was never given back to us”. Society lost trust in the government, questioning if there was ever the right intention from

⁵⁵ In May 2006, Montenegro became a sovereign state after the Independence referendum where slightly over 55% threshold (as determined by the EU) of the population voted for independence from Serbia and Montenegro union (Kim and Foreign Affairs, Defense, and Trade Division 2006).

the other side, or did the government just used momentum to capture the control.

Respondents agree that Montenegro is very traditional and patriarchal society. This is illustrated by Respondent A who argues that Montenegrins have the mentality that seeks authority, where there is one person (iron hand) in charge and makes all decisions which begins in the institution of the family and spans to the state. Respondent A mentions the research among Montenegrins who when asked about the head of household responded (99% of them) that father is head of the family, and when asked about chief of state, majority of respondents said there needs to be one chief in the state. A common point of respondents is that there is continuous pretence of fake democratic order for the outsiders under very controlling state inside. Society's discontent is not reflected in elections. According to Respondent P, it is challenging to untangle the current situation. The only cure would be that a critical mass of healthy structures of society formed proportional to the current problematic conditions.

Figure 4.4.1: Thematic map: Montenegro



4.5: North Macedonia

Infrastructural Power

A common point among respondents was that before considering anything else, we need to take into account specific ethnic composition in North Macedonia. There are two major blocs: Macedonian ethnic group and the largest minority, Albanians.

Respondent C says that territory is divided between the political parties that represent these ethnic groups. In government, there is always a coalition between Albanians and Macedonians, however, now for the first time there is an Albanian as president of the parliament. Respondent P argues that there are issues in North-Western parts of North Macedonia where there is an Albanian majority not controlled by central government to the full extent wherein local rules and customs dominate. According to Respondent C, when there are unclear events of violence, it is most likely orchestrated to cause political unrests based on the ethnic grounds, so in a way this issue always remains a bone of contention. Respondent J also believes that conflicts are controlled, even orchestrated by the government with some political goals. Respondent I adds that acts of violence are more isolated cases than a norm, while the regional instability in all Yugoslavian countries is symptomatic of the post conflict era.

According to respondents, there are two dimensions to the rule of law, formal and informal. As Respondent I says, “there is difference to what is prescribed on paper and how it is in reality”. There is a significant implementation gap due to political dimension of government. Rules and regulations for ministries are the same but practices depend on political will of the minister in charge and already established practices in that institution. Respondent J adds that officials use overlapping responsibilities between different

government units as an excuse for selective enforcement. The common opinion of respondents was that enforcement also differs based on the policy area and location: while some policies are enforced everywhere, others only in certain parts.

Respondent C finds that the greatest problem is lack of evidence-based policymaking: initiatives are not backed by strategy, cost benefit analysis, evaluation, and feasibility studies. According to Respondent P, there are two dimensions to each initiative, “what is being directed, and what is not being put in force”. Most of the governance is done outside of formal institutions. This is illustrated by Respondent J who mentions job position in political parties called ‘connections’. This means that when something needs to be done, the ‘connections’ person will find a way to make it happen rather than going through regular institutional channels. “It all sums up into who knows whom and what can someone do for you; ideology became merely an excuse for your acts”. Political parties are homogenized without visible difference in ideologies; opposition is just someone not currently in the position. According to Respondent P, not all are treated equally and same laws do not apply to everyone equally, adding that there should be more integrity in the government.

There is a significant divergence in capacity among local government units. According to Respondent P, policies are centrally planned which creates a problem as not all institutions in all parts of North Macedonia have the same capacity and needs. Respondent I blames the unharmonized enforcement not only to different capacities but also to incredibly high level of legislature changes which makes it difficult for administrative bodies to keep up: difficult to constantly keep changing practices to follow

new legislation. Most laws are brought under emergency procedure creating legal uncertainties and more enforcement problems.

Inclusiveness

According to respondents, membership in a political party is a key in resolving any issue in the country. Public office is perceived as incompetent, party membership being a prerequisite for employment rather than merit and expertise. This is illustrated by Respondent C who says that a party card is like a passport to enter public office. Respondent A argues that what is more prevalent than political affiliation is people always looking for opportunities to intervene and ‘get something done’. Being in a small country eases this as people know each other more, and this has become embedded in their tradition. Respondents see politics dominating institutional rules. Consequentially, people have lost trust that the government is doing anything for the sake of a citizen. School programs are also politically influenced. Media is used to present an image to the people, meaning the narrative is controlled by the political elite. Although transparency and inclusiveness has been seemingly improved with the new government, people are still untrusting.

It is common perception of respondents that public officials are abusing their office. Respondent C believes that the system is working on quid pro quo basis, as the exchange of services. According to Respondent A, corruption is more in the form of power exchange rather than economic exchange. Respondent J argues that electoral process is also politically influenced, with the governance style “come to power, employ people, make them vote for you”. There were initiatives to monitor, regulate and evaluate

public officials, but usually these initiatives are quickly phased out. All respondents find corruption systemic. Respondent A argues that the greatest problem is not that corruption exists but that it is not treated. This is especially problematic in high level corruption in big projects. Respondent C mentions that most prosecuted cases of corruption are for the former government officials, especially during the first months after a new government comes to power. Corruption feeds the system and is fed by the system as there is no correction. The judiciary is politically influenced and most cases either last for decades or never get closed.

In 2015, audio tapes of conversations between high ranking public officials revealed illegal activities of high corruption, election frauds, violations of human rights, which caused massive protests and crisis in 2015 which was eventually solved with mediation of the EU. Although, the government in force changed, the prime minister fled the sentence and ran to Hungary. Respondent C argues that there has been a history of criminal cases involving highly ranked officials, giving the example of one of the former prime ministers known for an arms scandal, who abused power to procure excessive military equipment while serving as defence minister during the fight against Albanian rebels.

According to all respondents, command is coming from the top. When you control institutions, you could be above the law, which is what happened with the previous prime minister who used the weak spots in the institution and exploited the law, eventually bringing the country to state capture. Respondent C argues that even though the government in force changed, the risk of a similar situation still exists. Although, there have been many social movements since the mid 2000s, respondents do not believe

civil society has far reaching influence. Respondents argue that CSOs are selectively called for in their consultant role in policymaking, many times only pro form, so in a way there is context dependent inclusiveness. Respondents A and P find that some of the most influential CSOs are very tied to the government, and are even in control of the smaller CSOs.

Yugoslavian Legacy

North Macedonia had long period of instabilities, sanctions from Greece, wars, and internal multi-ethnic ongoing disputes. Respondents share the opinion that institutions did not have time to gradually develop due to constant instabilities. Institutions are weak and flawed and easily abused. Although there have been face value changes in government, the same political elite has been circling around through time. According to Respondent A, the old government although not in force has its ways of still being present due to well established networks of control. According to Respondent J, a major roadblock to progress is the lack of a correction mechanism within institutions. There are no checks and balances to correct a very flawed system.

Respondents agree that they do not see the national plan and strategy for the country. Respondent I argues that while North Macedonia used the EU/NATO anchor, this was an essential element of functioning and a strategic element of government. Without this anchor, democratic standards started deteriorating and the country still has not recovered. Accordingly, North Macedonia, as Respondent I argues needs to return to the EU path, without which it is extremely difficult for political elites to find consensus or a common goal. According to Respondent C, there is much to work on, many civil liberties (sexual orientation, ethnic and religious affiliation) are still endangered and fragile.

Respondent P argues that human development is generally very low; however, there are great discrepancies within country, Skopje and bigger cities are more developed than the periphery. One of the major reasons for this is lack of a national plan. There were a series of many reforms, but without consistency in direction. Respondents perceive North Macedonia as not attractive for foreign investments. Respondent P describes the country as a blind spot that lacks social and physical infrastructure and on top of that has incoherent and inconsistent governance strategies. Respondents are sceptical about the actual effectiveness of civil society organizations and any stakeholder that is outside the political web, arguing that democracy is not rooted in society. According to Respondent P, “we want anarchy, not democracy; we do not even understand the concept; actually, I am rephrasing this: by the excuse of democracy, we actually seek anarchy.”

Figure 4.5.1: Thematic map: North Macedonia



4.6: Serbia

Infrastructural Power

The first statement that respondents agree on was that executive has all the tools of power in his hands and uses them according to his will. They call this an authoritarian regime where the power is centralized in one party with clear domination of executive. With power being centralized, it is difficult to speak of the effective delegation to the other levels. According to Respondent A, there is a top-down command system not adapted to fit the capabilities of levels being controlled. Many institutions are illiterate to technically implement what the central government commands. For a few municipalities not governed by the leading party, life is made difficult with constant attempts to sabotage their work. This is illustrated by Respondent J who compares the governance style to the 'mafia', arguing there is a parallel system running the country, outside the formal institutions.

Common point among all respondents was that enforcement differs theoretically and practically; it is selective and depends on political will. Respondent A illustrates selectiveness of enforcement by mentioning criminal behaviour within public office that is openly tolerated. The system is not treating the political elite and citizens equally. According to Respondent J, the major obstacle to enforcement is political pressure over complete institutional structure and control through political auto-censorship; meaning, the government has all the capacity but chooses not to enforce if enforcing is contra the political interests of the leading party. According to Respondent I, one narrative is presented to the outsiders, and another one is actually happening within the country.

Inclusiveness

Respondents point out that although branches of government formally exist, in practice they are not independent. Procedures are often broken, and it is not uncommon for president to takes over a legislative or judicial role. Respondent A says that parliament operates more as a closed institution dominated by the interests of the leading political party, which is less a place of discussion, but more of the final word. Common perception among respondents about policymaking is that polices are decided by the political elite without consultation or explanations to anyone, in an ad hoc decision-making style. There is no transparency in policymaking. Public calls and announcements are done in a discrete way with intention to have as few people and organizations attending in order to minimize their engagement. Transparency is especially low when a policy is politically sensitive. As illustrated by Respondent C, there is limited access to information and public resources, although the extent varies from municipality to municipality.

According to respondents, the major issue in Serbia is a lack of accountability, it seems that only checks and balances that exist are from within the party. Perhaps it exists to some extent at micro level where institutions are closer to people, but in central government, it is almost non-existent. Corruption is endemic and pervasive throughout the system. The public sector is built on a network of personal relationships. Individuals can achieve something only if he has a way to access those networks. For someone outside the network or criticizing government in any way, there are consequences. This is illustrated by Respondent J who spoke of instances where independent journalists opened up cases providing evidence of corruption in the current leadership, but this was never

processed. Corruption is only penalized in the cases of scapegoats. The prosecutor's office is silent. The Judiciary is not independent, and there are rare occasions when an individual steps out from political influence and confronts the system. These cases are usually penalized and the person publicly humiliated. Overall, there is low trust in public office as the requirement for a job is party membership, not expertise. In a number of cases, the police arrests someone who calls out the criminal behaviour rather than the one under the suspicion of the actual criminal behaviour.

Respondents C and Respondent I spoke more about the influence of non-government sector in policymaking, arguing that civil society sector in general does not feel like they have room for any influence. They also mentioned the issue of government-organized non-governmental organizations (GONGOs), which are used to mimic civil society and create illusion of democratic order for the international community.

Respondent P remembers days when the CSO sector was very strong leading the anti-war movement in the 1990s; however, these days they are long gone. The space CSOs are supposed to have is now filled by GONGOs. The actual impact of real CSOs is negligible. Even though aware of the political pressure CSOs face, Respondent I criticized the civil society sector arguing that there is a disconnect between CSOs and society in general. Some activists and civil society organizations are trying to make noise, but they are not trusted and have no legitimacy among people, so their reach is limited.

Power is centralized in hands of the leading party to the degree where even the opposition has no motivation to speak up. In this way, the leading political party is comfortable in its power and the vicious circle continues. Respondent A mentions the problem with the upcoming elections. Opposition parties protest by refusing to be part of

elections that they perceive as unfair and engineered by the leading political party which creates an unfair playing field using public resources and controlling major media to lead pre-election campaigns on an everyday basis. Considering most people are employed via party connection, votes are guaranteed because people fear losing their jobs. According to two of my respondents, party members need to prove they and their family members voted for the party, so voting becomes more like a party responsibility not a civic duty. A common statement among respondents was that most of the major media is controlled. Respondent J particularly elaborated on this, saying that media does not criticize the political elite and ‘Satanizes’ the opposition parties. In that way, most people who have only knowledge about the political situation by looking at media, see no viable alternative to the leading political party. The only resistance to the system and correction mechanism is actually outside the system, among rare actors such as a few independent journalist and independent media outlets. They are constantly under attack, even receiving threats to their lives. Government is not shy to abuse power to penalize those who resist, dragging them into court to waste energy, money and resources. In this way, society is discouraged to speak up. There were yearlong mass protests in Serbian cities starting back in November 2018, happening every Saturday, most consistently held in Belgrade. People wanted to show their discontent with the government. Respondent J paraphrased President’s reaction to the protests “even if 5 million of you (people) came out, I will not do a thing”. Symbolically, protests were named 1 out of 5 million. This statement probably sums up the case of Serbia the best.

Yugoslavian Legacy

Respondent P characterized the overall state of institutions in Serbia as

devastated, arguing that they were never actually built, but half built on the ruins of the old system with the old instruments and means of governance. Such devastated institutions had a great potential to be misused which has become evident ever since the new leadership assumed positions. Now, the institutions are abused for personal goals of the political elite. The common opinion was that the situation will not change any time soon. According to Respondent P, the narrative within country is still filled with xenophobia and hate speech, not much unlike the one from Milosevic's time. Until 2012, we could speak of some movements towards democratic values and practices, but after this year all of that progress quickly crumbled.

When it comes to foreign politics, there has long been dispute, if 'we are East or West'. Serbia is trying to seemingly sit on both chairs, mingling between the EU and Russia, but it is apparent that Russia is strongly holding its position in the Balkans in this way. According to Respondent I, in order for real change to happen, there needs to be a root change, a change of paradigm, real embrace of democratic values. There is an undeveloped political culture in Serbia, an undeveloped pluralistic society and a lack of democratic history. People need to foster and increase activism; however, for this to effectively happen, they need to realize they give legitimacy to the government. Society needs to be educated on their civil responsibilities and rights. Considering the current leadership, it is not likely government will make that step, especially not without external influence.

Any mention of Serbia always comes with a mention of tense neighbour relations. Historically, there have been many territorial disputes among which the latest one is with Kosovo. The common introductory remark among all respondents was what is

colloquially known as the Kosovo issue. This is a constitutional paradox that exists in Serbia. Namely Kosovo and Metohija are mentioned in the Constitution as parts of Serbian territory, despite the fact that more than a decade ago Kosovo declared independence, and as such is recognized by more than one hundred UN countries. As Respondent A argues, it is paradoxical to consider that the central government of Serbia does have any legitimacy to enforce policies in the territory of another country.

Figure 4.6.1: Thematic map: Serbia



4.7: Slovenia

Infrastructural Power

The common opinion among respondents was that central government in Slovenia can control the whole territory, without cases of political instability or violence.

According to all respondents, the problem is actually that a government is too centralized, and power too concentrated. Respondent A compares the central government to the core

tissue in some organism with all the functions concentrated here. All policies are made at the central level, which causes issues on local levels due to great regional development disparities. With more than 200 municipalities, there are implementation problems due to different capacity levels and resources at their disposal to handle their responsibilities. Respondent P explains that this is the consequence of bad policymaking and lack of planning. Respondent A adds that policies are not thoughtfully planned throughout the execution phase and that there is no consideration of the chain effect among policies. Moreover, in Slovenia, regional sense of belonging is very strong; however, not institutionalized. Respondent P mentions that there has been talk, for over 20 years, about creating a regional level which would mediate between central and local government levels, but nothing has been done yet.

Respondents agree that the effectiveness in enforcement is selective. When it is in the interest of the political elite, there is effectiveness and enforcement is sudden and smooth. Respondent I illustrates this by mentioning the example of a wire fence built on the border to disable the refugees coming from the outside. Respondent J adds that despite resistance from civil society groups this has been put into force. All respondents question for whose benefit are the policies being taken, and why policies that align with political interest are quick to be enforced while others are left to the forces of inertia. Respondent A asserts there is effectiveness, but questions to whose benefit. Not all are equal under the law, and policies in theory differ from policies in practice, all of it being dependent on the willingness of political elite that prioritizes political interest over social welfare.

According to Respondent C, being in the EU has two sides, formally there is a need to satisfy regulations, but in practice there are a lot of administrative problems and too much bureaucracy. Too much bureaucracy causes delay in procedures. Respondent I argues that this is generally a problem with newly established countries, that there is belief that if the number of institutions or procedures increases, the state will improve. Respondent P argues that there are so many procedures in order to avoid any loopholes in the law, as it is rooted in the culture of people to go around the law. Respondent A has little faith in plans, arguing they are written to be files in folders rather than executed. There is great inefficiency in policy planning, monitoring, evaluation and adaptation. A common point was that people are generally not satisfied in the over-bureaucratized system. Due to many regulations, it takes too long to acquire any form, permit, or process cases, which can take up to years. Respondents were pessimistic to how things will improve as the system is too tangled.

Respondent J argues that the greatest issue of Slovenia is that it has none of its own goals/strategies. It had these before EU accession, but ever since then, it is under the EU/NATO umbrella and behaves according to their agenda. Momentum was lost after the EU accession, Slovenia remained in the status quo and what seems to be the only issue is how to acquire more money and power, as opposed to how to make Slovenia better for everyone. There is no national long-term plan and strategy, no vision, and regulatory impact assessment is relatively bad. Respondents find that some improvements have been made in socioeconomic performance. For example, the gender income gap is smaller, and there have been many infrastructural investments. However, when compared to the EU average, Slovenia has lower wage, education, less developed infrastructure, and higher

brain drain (shortage of experts in many areas). Respondent A finds that Slovenia and the Czech Republic that started from the same point, both joining the EU in the same year (2004) diverged, Czech Republic being far ahead of Slovenia.

Inclusiveness

Respondents argue that there is virtually no institution free of political influence. Respondent C argues that one of the greatest issues is the judiciary and the prosecutor's office, that apart from not being independent of political influence are also not effective (processes take many years). There probably are good individual cases, but altogether the system is not working as it should. According to Respondent J, there are rarely cases of proving and sanctioning high public officers (isolated cases are what we consider to be scapegoats); even if the process begins, usually there is some technical issue that aborts the process. Respondent J continues saying that corruption is systemic (in judiciary, media, police force, public tenders) and argues that for the situation to improve, the executive should not be the one to recommend policies, but rather the legislative body, "policymaking should occur in parliament." Respondent I finds the reason for persistence of political influence in institutions in the immature stage of democracy in which independent institutions had not had time to form. The legislative branch is no different. According to all respondents, transparency of policymaking depends on the issue and political interests behind it. Political interest and capital seem to be the major currency in politics. Respondent P says that although there are theoretically clear procedures to be followed, politics shapes every process. Theoretically, there is a forum to debate within central government; but government does not really 'hear' what it does not want to hear.

Information should be published online in advance; however, in practice, government provides information only few days before. A common point of the respondents was that inclusiveness of policymaking appears better than it really is. According to Respondent I, policymaking is reserved for the political elite that only approves those whom they can control; this is the state of lobbying network.

Respondents share the opinion that there is no accountability in government practice. Any sign of corrective mechanism comes from society rather than from within the system. Perception of corruption is very high. It is systemic which adds to already high distrust people have in institutions. Respondent P explains that public officials need to be politically affiliated or compatible to the politics to be employed. Public officials are perceived by people as abusing public office and elites as working for themselves, not people. Respondent I argues that instead of party candidates, it would be more effective to employ professionals. Public office serves as a guarantee of security for employees and voting body for political parties.

When it comes to the political scene, respondents call it ‘muddy scene’ with the same actors circling around for a long time. Respondent J illustrates this point by saying that although elections are fair and free, that does not mean much as there are continuously the same actors, leaving practically no choice to voters. All respondents criticized opposition parties, arguing they could be more active. Respondent I adds that opposition is divided and scattered, with some parties even cooperating with the leading party. When it comes to civil society organizations, respondents shared the belief that there is much room for improvement, and that the major problem with current civil society organizations is that they seem more money driven than acting as corrective

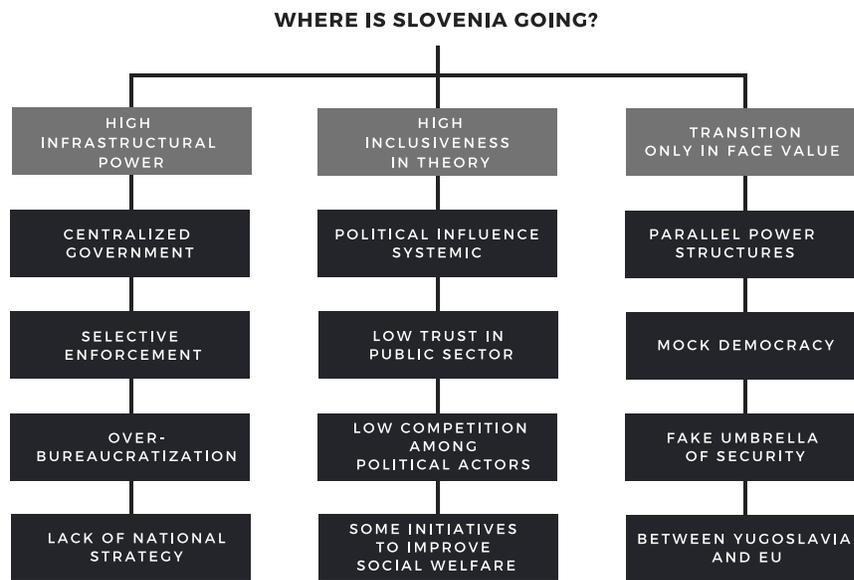
mechanism to the government. According to Respondent I, civil society was strong when Slovenia was becoming independent, but then those organizations infiltrated and became part of the government. Respondents agree that there have been initiatives to improve living standards of minorities and the disadvantaged. According to Respondent A, discrimination is punishable, there needs to be a certain number of minorities and disabled employed in firms. In addition, there are initiatives to include representatives from minorities in government bodies. For example, in some local levels, Roma representatives have a reserved seat in municipal councils.

Yugoslavian Legacy

According to all respondents, the situation in Slovenia seems far better from outside than it really is inside. Respondent I argues that from the 1990/1991 period there has been more a face value change. Essentially, the political mindset and socialist ideology has not changed. The political scene is filled with the old actors. Respondent C argues that although Slovenia is performing better than other former Yugoslavian countries, it is worse compared to the EU countries. “In a sense Slovenia is bluffing itself, people got used to things not functioning that now what is deviant has started looking like a norm”. Slovenia is unique because it is a small country with a small population, competition is low, and it is relatively easy to coordinate and organize. This has been made even easier due to inactive behaviour of society. A parallel system seems to be running behind the scenes and the center of power is informal. According to Respondent J, despite constant public talk about active work on setting democratic pillars, no one is actually protecting them. These pillars and values are too often violated. Respondent J

argues that the informal system is getting stronger and that in order to govern, there is no need to be in government. This is illustrated by Respondent I who mentions recent paramilitary unit formations “Stajerska varda” who move around Slovenian territory under the slogan of protecting the identity of Slovenia. In a country considered the most democratic among the ex-Yugoslavian countries, Respondent J says “we basically have neo-Nazis walking around under the explanation of protecting the national interest.”

Figure 4.7.1: Thematic map: Slovenia



4.8: Discussion

The ultimate question of this research is why some countries succeed while others fail, or to rephrase that, why countries have different developmental outcomes. This chapter explores that question using a sample of six countries that have a common history but different presents. If the institutional setting is a major determinant of country’s

socio-economic performance, what makes some countries follow the path to success while others take the opposite path?

The Former Yugoslavia provides a natural experiment in which descendant countries pursued separate paths after the dissolution of a mother country and ultimately ended up in different places. I am interested to learn why these countries took paths they took and ended up where they ended up, some more successful, others less successful. In exploring that question, my path led me to Sarajevo, Zagreb, Podgorica, Skopje, Belgrade, and Ljubljana⁵⁶. I talked with the experts from the non-governmental sector about what happened after the split of Yugoslavia in their respective countries. Interviewees were divided into categories based on their role in civil society. Broadly speaking, they all belong to the non-governmental sector but as this is broad term, I distinguished between them based on their perspectives within society. Eventually, I came up with a sample consisting of activist, civil society organization representative, international institute representative, investigative journalist and professor. Diversity in perspectives helped me draw balanced information for my research.

Cross-sectional analysis gives me only partial answer on my research question. I lack chronological perspective and context. The purpose of my qualitative analysis is to fill that gap. In-depth interviews helped me illuminate a broader ‘why nations succeed’ question using the case study of former Yugoslavian republics. If institutions are the ‘skeleton’ of a nation, is there certain structure that universally works better? Are some institutional aspects inevitably superior to others and as such only once in place can a country prosper? We cannot influence the past, but the future is yet to be written, so the

⁵⁶ Capitals of former Yugoslavian countries in this order: Bosnia and Herzegovina, Croatia, Montenegro, North Macedonia, Serbia and Slovenia.

overreaching theme for each country is ‘where is a country heading’ considering its current institutional setting. Is a country functional with a central government that can effectively enforce policies? Is there a balance of power between government and society, or is policymaking one-sided? Historical legacy cannot be overlooked when talking about where countries are now. While this can affect a country’s present, it should not permanently disable it. Among the descendants of Yugoslavia, there are similarities stemming from a common history, but also many differences stemming from individual dispositions and choices countries took after dissolution. In the following paragraphs, I will share respondents’ opinions about what happened to descendant countries after the breakup of Yugoslavia.

In 30 interviews during my three-months-long visit in the region of the former Yugoslavia, apart from asking country specific questions, I also asked respondents one common question⁵⁷. What happened to the republics after the mother country dissolved, why did they end up in different places: is history the only thing they share, or are they more similar than it seems? My impression after spending some time in each country is that Yugoslavian legacy is so strong with far reaching effects that sometimes it seems Yugoslavia has not ceased to exist at all, it just split in six different parts. All republics share the legacy of the old system which has a way of shaping all aspects of life long after split of mother country. Countries never set new democratic institutions, but rather used pillars of the old system on top of which they added a façade of democracy. It is common practice in countries that leading political clique assumes all control and abuses

⁵⁷ In Chapter 4.8, respondents from all countries will be mentioned. As there is Respondent A, Respondent C, Respondent I, Respondent J, and Respondent P in each country, to identify exactly which Respondent I am referring to, I will identify country which respondent is coming from in brackets.

power by representing its intentions under slogans of public welfare. The common view of the respondents is that the former Yugoslavian countries have never matured in the democratic sense and that people still do not fully understand a concept of democracy. Respondent P (Bosnia and Herzegovina) argues that there have been too many transitions throughout history in the region without structural continuity where stable institutions have never had time to be formed and then mature. The institutions countries have today have not had an uninterrupted time to prove they are stable and long lasting. Durability is yet to be achieved, perhaps, through a couple of generations. Comparing the republics, it is obvious they share a Yugoslavian legacy; however, where they differ is the extent this legacy remained intact and the degree of democratic transition pursued. Slovenia is ahead of the region in that sense, being furthest from Yugoslavia, and closest to democracy.

One of the most challenging issues common to all countries is the existence of strong shadow system that runs parallel to formal institutions. Respondent P (Croatia) explains that this characterizes all Yugoslavian countries. Political actors have more power than regulative bodies. This is most obvious in countries such as Serbia and Montenegro where there is an unconstitutional degree of the executive's control. Can such unproportionally high power concentration in the hands of one man/party result in benefits to the people? Can we expect one man/party will behave in a moral way? According to Chomsky, "states are not moral agents; people are, and can impose moral standards on powerful institutions" (2015, 184). However, if one man/party comes to control all institutions, can we expect he will impose restrictions that will limit his power? According to Respondent I (Slovenia), the nature of Titoism is autocratic in its core. This influence spilled to all former republics, countries are faced with a great

heritage of clientelism and oligarchy. Respondent P (Montenegro) is discouraged with how governments of ex-Yugoslavian countries came to be in the first place, “they came out of contamination, and such origin is anti-developmental in itself”. In addition, the breakup caused turbulence between ethnic cleavages which further caused additional tearing of the region. Minorities were left without their place under the sky and they lost rights they had for many years. This is most evident in North Macedonia where according to respondents from this country there is still discrimination toward the largest ethnic minority group, Albanians. Bosnia and Herzegovina is another example of multi-ethnic country whose three ethnicities are used by political elites to separate the nation even further.

Another commonality between ex-Yugoslavian countries is their war heritage. However, the degree of war destruction differs from country to country, Slovenia being the least affected. According to Respondent I (North Macedonia), Slovenia had the least institutional discontinuity and consequentially had different trajectories than the others. While the others were preoccupied with a lengthy process of disentangling from the common base and recovering from the war, Slovenia was already on the new path without a need to rebuild. Slovenia focused on the future and development. There was early and swift transformation to the new order relative to the others. Later, Slovenia used the leverage of the EU to make additional institutional changes. On the other hand, other countries had immense war damage to recover from, infrastructure to regrow, and homes to rebuild.

The Yugoslav Wars had significant effect on development of countries, with immense destruction of social and economic capital, displacement of people,

infrastructure devastation and territorial disputes that continue to this day. The deadliest conflict was in Bosnia and Herzegovina with the atrocities that had the character of ethnic cleansing. According to ICTY⁵⁸ “more than 100,000 people were killed and two million people, more than half the population, were forced to flee their homes as a result of the war that raged from April 1992 through to November 1995 when a peace deal was initialed in Dayton” (United Nations n.d.). The common view of respondents was that war effects put Bosnia and Herzegovina in the greatest disadvantage out of all countries. Apart from great destruction of infrastructure and loss of human life, the constitutional framework from the Dayton Accords’ left systemic consequences that are still felt on daily basis. As Respondent A (Bosnia and Herzegovina) said, “people live in three ethno-nationalistic monolith structures”. Respondent P (North Macedonia) adds that there is still a territorial integrity problem in Bosnia and Herzegovina with significant influence of Croatia and Serbia, as co-implementors of Dayton Accords. In that sense, Bosnia and Herzegovina has no authentic manifestation and political instruments, it is de facto one country but de jure it is not. The country is very fragmented. Respondents argue that institutions do not seem to be working toward a common goal. The question remains, can a country with such internally conflicted structure make any steps forward.

Respondent P (Croatia) argues that essentially, it is not so much that some Yugoslavian countries had more benefits, rather others had more problems. This was then abused by political leaders and became their strategy for keeping power. There was no consolidation about direction in which transition should go and no time for transformation of the value system. Respondent A (North Macedonia) argues that after

⁵⁸ ICTY stands for The International Criminal Tribunal for the former Yugoslavia. It was a United Nations court designed to deal with war crimes from Yugoslavian wars of 1990s.

the breakup of Yugoslavia, there was no central mechanism of discipline but each country was left to itself. Suddenly, countries became independent actors that resulted with political dysfunctionalities. According to Respondent P (Serbia), paths Yugoslavian countries pursued depended on the character of individual societies, war damages, the balance between East and West, and internal issues. While some moved ahead, others are still lingering.

However, there is a general architecture that proved more successful and led those who followed it to further development. Croatia and Slovenia anchored their political and economic strategies through the EU, and security through NATO. Montenegro was last to join NATO⁵⁹ in 2017. Although both Slovenia and Croatia are the EU members, according to all respondents, Croatia is not that far from its less fortunate non-EU neighbors. According to Respondent I (North Macedonia) Croatia had an idiosyncratic path, it joined NATO and the EU while they were undergoing crisis, which consequentially had weaker impact on development than for countries who joined the EU in the 2004 enlargement, such as Slovenia. Respondent I (Slovenia) adds that there are differences in values between Slovenia and other countries. While other Yugoslavian countries are more conservative, Slovenia has the history of the Reformation and Protestant movement whose values have been ingrained in the country ever since. On the other hand, in other countries, culture is based on conservative values, and religious communities have a strong ongoing influence. This could have been improved top to bottom through education, but there was obviously no willingness to do so.

Apart from the degree of Yugoslavian legacy, the degree of democratic transition, the extent of war destruction and the culture that shaped institutions in the former

⁵⁹ Slovenia joined NATO in 2004. Croatia joined NATO in 2009 (NATO 2019).

Yugoslavian countries, geopolitics is another factor. The position of Slovenia is another asset this country had compared to others. Slovenia is in closer proximity to the rest of Europe, with Austria as the first neighbor.⁶⁰ In the Figure 4.8.1, there is a map of the former Yugoslavian countries⁶¹ along with neighboring countries.

Figure 4.8.1: Map of the former Yugoslavian republics



⁶⁰ Neighbouring countries of Bosnia and Herzegovina are Serbia, Croatia and Montenegro. Neighbouring countries of Croatia are Slovenia, Serbia, Montenegro, Bosnia and Herzegovina, Hungary and maritime borders with Italy. Neighbouring countries of Montenegro are Croatia, Albania, Serbia, Bosnia and Herzegovina, and Kosovo. Neighbouring countries of North Macedonia are Albania, Kosovo, Serbia, Greece, and Bulgaria. Neighbouring countries of Serbia are Croatia, Bosnia and Herzegovina, Kosovo, Montenegro, Bulgaria, North Macedonia, Romania, and Hungary. Neighbouring countries of Slovenia are Croatia, Italy, Hungary, and Austria.

⁶¹ Kosovo is technically the seventh Yugoslavian country. However, there have been many international recognition issues for Kosovo ever since declaration of Independence from Serbia in 2008. Republic of Kosovo has not become UN member yet, and due to that fact has not been included in the study.

The common opinion of respondents was that there is an obsession in the Balkan countries with the history. This obsession is controlling present and threatening future. This is illustrated by Respondent C (North Macedonia) who argues that none of Yugoslavian countries (Slovenia excluded) lives in 2019. The same point was made by Respondent J (Croatia) who quotes Churchill' saying that "the Balkans produce more history than they can consume."

To recall, Slovenia and Croatia are in the third quadrant of my institutional matrix having strong infrastructural power and high inclusiveness. Serbia, Montenegro and North Macedonia are in the second quadrant having strong infrastructural power and low inclusiveness. Lastly, Bosnia and Herzegovina is in the first quadrant having weak infrastructural power and low inclusiveness. Talking with respondents in each country, I confirmed that these categorizations are not just theoretical concepts. All respondents agree that Slovenia is ahead of the former Yugoslavian republics. Croatia is not yet there; however, it is not sharing the destiny of 'the rest'. Slovenia and Croatia as the EU members even if not content with the present have at least prospects for future, while 'the rest' are still lingering in the past. Slovenia detached from history the earliest, and embraced the future the fastest. Slovenia is ahead in living standards and the well-being of its citizens, and what is more important in opportunities. On the other hand, there is a country like Bosnia and Herzegovina that as my respondents put it, is 'stuck in the place' or more vividly, in a 'straitjacket'. North Macedonia also seems disintegrated and struggles with keeping it all together without a consistent sense of direction. Finally, there are countries like Montenegro and Serbia that seem to be led by the iron hand of a single man/party who has the vision that may or may not be the vision that benefits

society. As can be seen in the Figure 4.8.2, the highest human capital development is in Slovenia, while the lowest in North Macedonia and Bosnia and Herzegovina.

Figure 4.8.2: Human Capital Development of the former Yugoslavian republics



Respondents from Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia (low inclusive countries) complained about low standards of health and education services in their countries. A few respondents from North Macedonia criticize unequal access to healthcare arguing that not everyone has the same opportunities to receive timely and quality services. This opinion was shared by respondents from Bosnia and Herzegovina and Montenegro. In Montenegro, a party card will speed up doctor's appointment, while in Bosnia and Herzegovina a personal connection will push you up the waiting list. If you are not a 'people's person', you may end up waiting for a couple of months to see a doctor. In the capital of Bosnia and Herzegovina, in the major clinical center, there are even no basic supplies so some tests and procedures cannot be conducted. For many procedures, people need to visit private clinics. Respondent A

(Bosnia and Herzegovina) adds that the quality of public healthcare is “so good that politicians and their families go to other countries when in need of some checkups and procedures”, and that “education is of such quality that politicians send their children abroad for schools”. Respondent P (North Macedonia) argues that the situation in Skopje is similar. What is more alarming, is that we are talking about the situation in the capitals, going further from the core, conditions are of course worse. What is also common in these countries is brain drain, especially significant in the young population. Educated and highly qualified individuals have no opportunity to work in their pay rank and return investment on their education, so they go elsewhere. However, Croatia and Slovenia are not immune to this issue. From my respondents in these countries, I learned that opening their borders in the joint EU market, made more developed EU countries more attractive destinations in the labor market, causing a brain drain of young people. While non-EU Yugoslavian countries are less developed than the EU Yugoslavian countries, so are these countries less developed than the EU non-Yugoslavian countries. As we can see, there is always someone who is more developed, which makes a development curve infinite.

Bosnia and Herzegovina and Slovenia were both part of Yugoslavia; however, they are on very different paths now. Comparing their development is like comparing ‘the hare and the tortoise’. The only way for Bosnia and Herzegovina to win a development race with Slovenia would be if the same scenario from Aesop’s fable happened. If the hare, in this case Slovenia, would fall asleep. Even then, with Bosnia and Herzegovina’s internal issues, it is not likely the country would continue going forward, but rather go two steps ahead and a few back. With the current institutional setting of Bosnia and Herzegovina, the country is not likely to catch up with a competitor even if the

competitor pauses the race. This means that Bosnia and Herzegovina is lingering in a race with itself. Montenegro, North Macedonia and Serbia also have their issues; however, as opposed to Bosnia and Herzegovina, at least, they reached that basic functionality level. During my interviews in Slovenia, I have heard respondents talk about nondiscriminatory laws to encourage protection of minorities. On the other hand, what I heard in Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia is that even the basic rights of people are violated. Croatia is lingering in the middle, between ‘the rest’ and Slovenia; however, they made their first step forward when accessing the EU. While Slovenia is protecting minorities, the ‘Yugoslavian South’ does not even protect the majority. This creates a question, who is then protected in ‘Yugoslavian South’? Did Respondent P from Montenegro call what is happening in these countries by its right name, the ‘oligarchical capitalism’? Even if there were no numbers, figures, and words from my interviewees I would have seen development differences across former Yugoslavian countries with my own eyes. Visiting the six capitals one after another for three months, gave me the opportunity to get a sense where each country stands relative to the others. It was obvious which nations are progressing and looking to the future and who are struggling with one leg still in past.

CHAPTER 5: CONCLUSION

Development as an ever-evolving concept

I began this study asking a question, *why nations succeed?* Now, in my concluding chapter, I realize that there is a logical fallacy in this question. To succeed would imply that a nation reached the end of a development path. Is there such an end? After my quest to answer that question, what I have learned about development is that, it is an ever-evolving concept. As we still do not know the limit to a human mind, in the same way, we do not know the limit to development. As new generations are born, so are new abilities and aspirations. In *Stages of economic growth: a non-communist manifesto*, Rostow uses Thomas Mann's family saga from 1901 to vividly depict dynamics of inter-generational values. In *Buddenbrooks*, Thomas Mann follows a story of the decadence of a bourgeoisie family. The term 'Buddenbrooks dynamics' then captures the evolving aspirations through generations. As Rostow suggests, the first generation "sought money", "the second, born to money, sought social and civic position" and "the third, born to comfort and family prestige, looked to the life of music" (Rostow 1990, 11). In recognizing that humans evolve, we must also recognize that institutions governing humans' lives also need to evolve. While there is no dispute that state capacity is necessary for functioning institutions, there is still a debate over what the relationship between state and society should look like. Should state be the sole decision maker or should society be more involved in policies governing its life? I argue that a nation fully develops only if there is an active institution of civil society with all its diversity and pluralism to balance the state's narrow mindset. To accept absolute government, would

mean to deny that humans evolved and that they can contribute in decisions affecting their wellbeing.

In my study, *Why nations succeed? Distribution and reach of the state power*, I focus on institutions as the primary determinant of the development of nations. While exploring the development literature, I found that I still did not understand how institutions affect the performance of countries. I read many studies explaining how either bureaucratization or democracy affect certain dimension of socio-economic performance, such as economic growth or income distribution. However, I could never fully answer my *why nations succeed* question. My study takes a new look at this issue by introducing a two-dimensional institutional setting and exploring its effect on the socio-economic performance of nations. On the one hand, borrowing Mann's concept of infrastructural power (1984), I explore the state's capacity to reach all parts within its territory. On the other hand, I complement this dimension with inclusiveness that accounts for state-society relations and the power balance between these actors. It is important to distinguish between infrastructural power and inclusiveness. In *The Old Regime and the French Revolution*, Alexis de Tocqueville suggests that "the sovereign should punish immediately any fault that he discovers, but he cannot flatter himself into supposing that he sees all the faults he should punish" (as cited in Soifer 2008, 234). Infrastructural power is depicted in the latter part of the sentence that implies the sovereign cannot reach all parts within his territory. Inclusiveness is depicted in the opening part of the sentence that implies the sovereign's ability to punish immediately as he sees fit without consulting with anyone. It is important to understand that looking

solely at the state's ability to enforce does not explain whose interest the enforced policy serves.

My aim behind developing the two dimensions of institutions to represent the functionality of the state and its relationship with society, is to analyze their effects on different indicators of socio-economic performance: economic growth, income distribution and human capital development. More closely, I unpack institutions to examine which aspect of national performance does each institutional dimension affect. I propose that the two dimensions affect different indicators of performance. Infrastructural power describes how functional the state is in enforcing policies within its territory while maintaining stability. Being a measure of capacity, infrastructural power is about effectiveness and as such, influences economic activity in a country. However, to look at state capacity without considering power distribution, would not capture how benefits are spread within a country. In turn, by exploring the distribution of power between two actors, state and society, inclusiveness influences income distribution and human capital development. After defining the two dimensions of institutions and recognizing how each affects different aspects of socio-economic performance, I bring these two dimensions together into an institutional setting. Depending on the combination of the two dimensions, countries will fall in different quadrants of an institutional matrix. Each quadrant represents the institutional setting, consisting of different degrees of the two dimensions. In the zero quadrant, there would be a country with weak infrastructural power and high inclusiveness; however, I assume that such a combination cannot exist as state capacity needs to precede civil society to ensure the functionality of a country. As Huntington (1968) argues, a polity must be capable of employing power before

constraining it. This means that infrastructural power is a pre-requisite, a necessary condition for any country to exist as a functional polity. In the first quadrant, we can find countries with weak infrastructural power and low inclusiveness. With weak infrastructural power, a country is not a functional polity and we can expect low performance on all socio-economic indicators. In the second quadrant, countries are characterized by strong infrastructural power and low inclusiveness. With strong infrastructural power, a country is a functional polity with a state that is able to maintain stability and enforce policies within its territory. This results in robust economic activity. However, characterized with the low inclusiveness, the second quadrant country will underperform in social indicators, resulting in an unequal distribution of national income and low investment in the human capital. Finally, the third quadrant hosts countries with strong infrastructural power and high inclusiveness. With strong infrastructural power and high inclusiveness, countries in the third quadrant are functional and have a balanced state-society relationship. With both actors, state and society strong, we see these countries as 'champions' in socio-economic performance. Society has bargaining power and in turn, the state the incentive to invest in social welfare. In the environment in which there is a balance of power between state and society, there is more fruitful ground for sustainable development.

In order to test my theory, I performed cross sectional analysis on a sample of 161 countries to explore how institutional dimensions affect three measures of socio-economic performance while controlling for geography, history and culture. I expected infrastructural power to have significant effect on the economic activity in a country. According to the regression analysis, infrastructural power is not statistically significant

in explaining economic growth, however, since 80% of countries in today's world have reached the maximum value on my scale of infrastructural power, it is problematic to show correlation in this way. On the other hand, I expected inclusiveness to have a significant effect on the income distribution and well-being of people in a country. According to regression analysis, inclusiveness is statistically significant in explaining income distribution and human capital development. However, as institutional setting is two-dimensional, in order to see the full picture, we need to look at the institutional matrix to explore how the institutional setting as a whole affects the socio-economic performance. Exploring how the quadrants in the institutional matrix differentiate in terms of socio-economic performance, I found support for my hypotheses. I did not expect the first quadrant countries to perform the best in any of the socio-economic indicators, considering they are characterized with weak functionality and low inclusiveness. As the empirical evidence shows, this is the case. Some of the first quadrant countries are Afghanistan, Colombia, Nigeria, Somalia and Syria. As expected, the second quadrant countries are the 'champions' in economic activity. In these countries, the state is functional and effective in enforcing policies with power concentrated in the state. Society does not have bargaining power and the state has no incentive to invest in social welfare. I propose that countries that remain in the second quadrant too long may become authoritarian. Some of the second quadrant countries are China, Turkey, North Korea, Russia and Singapore. Mean economic growth of countries in the second quadrant is the highest relative to the other two quadrants. Both, the first and second quadrants host low inclusiveness countries, hence prosperity is not reflected in social performance indicators, and as expected the mean of income distribution and

human capital development in the first and second quadrant is lower relative to the third quadrant countries. Finally, the third quadrant countries having strong infrastructural power and high inclusiveness, are the ‘champions’ in social performance indicators. More balanced distribution of power between state and society is reflected in social performance indicators, with the highest mean of income distribution and human capital development in this quadrant. Some of the third quadrant countries are Canada, South Korea, Sweden, USA, and Germany.

While cross national analysis provides breadth to my research, it does not add any depth. By looking at a cross national snapshot, I see how countries across the world differ in terms of their institutional setting and its effect on socio-economic performance. However, what I cannot see, is how each country changes over time, does it prosper or stagnate, and is the performance change caused by underlining institutional change. In order to account for this, I conducted qualitative analysis to add the depth that was lacking in my research. Using the most similar case study method, I leverage the unique situation of the former Yugoslavian republics. After the dissolution of the mother country, six countries went their separate ways. This provides a natural experiment, where countries sharing a history after critical juncture choose different paths that lead them to different present and different future opportunities. I conducted field research, travelling to each country where I interviewed representatives from the non-government sector about institutions and socio-economic performance of their countries and how these changed over time.

Before conducting the qualitative analysis, I looked at the results from statistical analysis to see where each country stands. Bosnia and Herzegovina is in the first

quadrant; Montenegro, North Macedonia and Serbia in the second quadrant; and Croatia and Slovenia in the third quadrant. While I can see this from the cross sectional analysis, I could not see the context behind these classifications. What does it actually mean to be the first, second or third quadrant country? Conceptually I knew that in the first quadrant country there is no functional state and no balanced distribution of power between state and society; in the second quadrant there is functional state and power is concentrated in the state; and in the third quadrant, state is functional and balanced in power by society. However, while concepts helped generalize theory, I was still lacking deeper understanding. What does a country with weak infrastructural power coupled with low inclusiveness look like? When I interviewed respondents in Bosnia and Herzegovina, I saw what weak infrastructural power coupled with low inclusiveness means: a fragmented institutional network, inability of the central government to enforce policies, and a shadow system of informal power. When I interviewed respondents in Montenegro, I saw what strong infrastructural power coupled with low inclusiveness means: an authoritarian regime, public office that is not used for the public good, and 'Don Quixote-like' society. Finally, in Slovenia I saw that strong infrastructural power, coupled with although immature and not fully developed inclusiveness, still results in more initiatives to improve social welfare and protect minorities. Apart from illuminating what my concepts mean and deepening the understanding of how institutional paths led the countries to perform differently, I also confirmed my theory. A country with weak infrastructural power such as Bosnia and Herzegovina is non-functional, it suffers from institutional 'auto-immune' disease in which institutions are 'attacking themselves' in turn disabling the whole country. Montenegro with strong infrastructural power coupled

with low inclusiveness is referred to as authoritarian regime in which development is what one man decides it should be. Finally, although a young and immature inclusive country, Slovenia shows signs of development that is more equally distributed across society.

One might argue that these narratives are specific to these countries. While there is a general framework of what weak infrastructural power means, it can manifest itself in multiple ways. Bosnia and Herzegovina and Somalia are both low infrastructural power countries, however, their ‘non-functionality’ is not manifested in the same way. While in Bosnia and Herzegovina, there is issue of fragmented institutional structure over which the state has no control, in Somalia, there is the issue of inter-clan conflicts that do not recognize central government authority. However, essentially, both countries have a state that has no capacity to ensure stability and enforce laws within its entire territory.

There are many factors affecting development of a nation. Geography, culture and history certainly influence development. However, none of these factors is permanently disabling. On the other hand, I argue that a bad institutional structure is permanently disabling. Such institutions are as Aristotle (2016, 173) calls them “rotten ill-manned ships” that crumble under the least challenge. I assert that the two-dimensional institutional setting which I have offered is a major determinant of a nation’s socio-economic performance. The first dimension is infrastructural power which is a prerequisite for a nation to subsist. With weak infrastructural power, the state has no capacity to enforce policies within its territory and ensure a stable, functional environment. As Huntington argues, government with a low level of institutionalization is weak and bad government. Such government is immoral and lacks authority to perform

its functions, and the “function of government is to govern” (Huntington 1968, 28). In today’s world, most nations are characterized by a state with strong infrastructural power, or in other words, most of the world’s nations are functional and stable. While in today’s world, strong infrastructural power is a necessary shared trait, a nation’s character is distinguished by the second dimension, inclusiveness. Inclusiveness is not necessary for functionality, rather it is necessary for social prosperity. Low inclusiveness means an unbalanced distribution of power between the state and society which consequently leads to an unbalanced distribution of benefits in favor of the ones with more power. In a low inclusiveness country, there is room for the state to develop egoistical tendencies. An egoistical state becomes more subjective as opposed to objective, and is led by self-interest, rather than public welfare. De Jouvenel calls this “tendency of a man to use power for his personal ends” an “instinct for despotism” (1963, 95). The point of inclusiveness is that there needs to be a correction mechanism to restrain the egoistical tendency of the one who is in power. In *The Federalist No. 51*, Madison explores such a correction mechanism within the government, arguing that the greater number of interests that can check and balance each other, will reduce the probability of tyranny as they are forced to negotiate. With more balanced power, there is no environment for egoistical tendencies to develop as there are more actors and voices competing. However, even when such a state is reached, there is no guarantee it will persist. As Fukuyama argues “political development is not a one-way ratchet that keeps turning in a progressive direction. Political decay remains an ever-present possibility” (Fukuyama 2013, 15). There can be critical juncture for a power-hungry politician to take advantage of the situation and the country can spiral down the inclusiveness ladder.

According to Aristotle the best type of governance will not be the one of the highest degree but the one of the longest endurance, suggesting more precisely that we “must not think the truly democratic or oligarchical measure to be that which will give the greatest amount of democracy or oligarchy, but that which will make them last longest” (2016, 171). A nation’s success will not be reflected in the magnitude of state power but its endurance. Functional states with more balanced power distribution will be more likely to endure as there is the least reason for rebellion due to the smallest inequalities and highest wellbeing of its people. These nations will have infrastructures to reach all segments within their territory and state-society communication to achieve a balanced distribution of benefits. State and society coexist within the territory of a nation and give purpose to each other. They are defined by each other. The state and society need to control each other and at the same time the state as the objective authority, needs to be controlled by itself. As Madison argues, “in framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place, oblige it to control itself” (2009, 264). I argue that while reach of state power is necessary for functionality, an unproportional power distribution creates imbalance in a nation. Any imbalance is not durable. Aware of the ever-present possibility to decay, I return to my *why nations succeed* question and conclude this study with the realization that development is a never ceasing endeavor. To strive, a nation needs to be a compact of capacity and balance: the former to ensure functionality, the latter to maintain accord. The state precedes society by providing it infrastructures within which to function. If not balanced by society, the state will be blind to society’s wellbeing, and its development will consequently be limited.

REFERENCES

- Acemoglu, Daron and Robinson, James A. (2012), *Why nations fail: The origins of power, prosperity, and poverty*. Crown Books.
- Acemoglu, Daron and Robinson, James A. (2017), "The emergence of weak, despotic and inclusive states," (No. w23657), National Bureau of Economic Research.
- Alesina, Alberto, Devleeschauwer, Arnaud, Easterly, William and Kurlat, Sergio (2003), "Fractionalization Data," *Journal of Economic Growth*, 8(2), Available at http://www.anderson.ucla.edu/faculty_pages/romain.wacziarg/papersum.html.
- Aristotle, Barnes, J. (Ed.) and Lane, Melissa (2016), *Aristotle's Politics. Writings from the Complete Works: Politics, Economics, Constitution of Athens*, Princeton: Princeton University Press. Available at <https://www.degruyter.com/view/product/487157>.
- Banning, Tim (2014), "The Bonn Powers of the High Representative in Bosnia Herzegovina: Tracing a Legal Figment," *Goettingen Journal of International Law*, 6 (2), 259-302.
- Barro, Robert J. (1991), "Economic growth in a cross section of countries," *The quarterly journal of economics*, 106(2), 407-443.
- Boyatzis, Richard E. (1998). *Transforming qualitative information: Thematic analysis and code development*. Thousand Oaks, CA: Sage.
- Braun, Virginia and Clarke, Victoria (2006), "Using thematic analysis in psychology," *Qualitative Research in Psychology*, 3(2), 77-101.
- Chomsky, Noam (2015), *Rogue states: The rule of force in world affairs*, Haymarket Books.
- De Jouvenel, Bertrand (1963), *Sovereignty: An inquiry into the political good*, Phoenix Books, The University of Chicago Press.
- Easterly, William (2001), *The elusive quest for growth: economists' adventures and misadventures in the tropics*, MIT press.

- Evans, Peter B. (1992), "The State as Problem and Solution: Predation, Embedded Autonomy, and Adjustment." In Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment*, Princeton, NJ: Princeton University Press.
- Evans, Peter B. (1995), *Embedded Autonomy: States and Industrial Transformation*, Princeton, NJ: Princeton University Press.
- Evans, Peter B. and Rauch, James E. (1999) "Bureaucracy and Growth: A Cross-National Analysis of the Effects of "Weberian" State Structures on Economic Growth," *American Sociological Review*, 748-765.
- Feenstra, Robert C., Robert Inklaar and Timmer, Marcel P. (2013), "PWT 8.0—a user guide," Available at <http://www.ggdcc.net/pwt>.
- Feenstra, Robert C., Robert Inklaar and Timmer, Marcel P. (2015), "The Next Generation of the Penn World Table," *American Economic Review*, 105(10), 3150-3182, Available at www.ggdcc.net/pwt.
- Freedom House (2018), *Freedom in the World 2018, Methodology*, Available at <https://freedomhouse.org/report/methodology-freedom-world-2018>.
- Freedom House (2019), *Freedom in the World Data and Resources, Freedom in the World Comparative and Historical Data, Country and Territory Ratings and Statuses, 1973-2018*, Available at <https://freedomhouse.org/content/freedom-world-data-and-resources>.
- Fukuyama, Francis (2013), "Democracy and the Quality of the State," *Journal of Democracy*, 24(4), 5-16.
- Fukuyama, Francis (2015), "Why is democracy performing so poorly?" *Journal of Democracy*, 26(1), 11-20.
- Giraudy, Agustina and Luna, Juan. P. (2017), "Unpacking the state's uneven territorial reach: Evidence from Latin America," *States in the developing world*, 93-120.
- Gupta, Dipak. K., Madhavan, M. C. and Blee, Andrew (1998), "Democracy, economic growth and political instability: an integrated perspective," *The Journal of Socio-Economics*, 27(5), 587-589.
- Hadenius, Axel and Teorell Jan (2007), "Pathways from Authoritarianism," *Journal of Democracy*, 18(1), 143-156.

- Hays, Don and Crosby, Jason (2006), "From Dayton to Brussels," *Constitutional Preparations for Bosnia's EU Accession. Special Reports. Washington: United States Institute of Peace.*
- Huntington, Samuel P. (1968), *Political order in changing societies*, Yale University Press.
- IMF (2019), IMF DataMapper, Datasets, World Economic Outlook, GDP, Real GDP Growth, Available at https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOORLD.
- Inglehart, Ronald (1997), *Modernization and postmodernization: Cultural, economic, and political change in 43 societies*. Princeton University Press.
- Inkeles, Alex and Smith, David H. (1974), *Becoming modern: individual Change in six developing countries*, Cambridge, Mass: Harvard University Press.
- Judah, Tim (2009), "Entering the Yugosphere", *The Economist*, Available at <https://www.economist.com/europe/2009/08/20/entering-the-yugosphere>.
- Kim, Julie and Foreign Affairs, Defense, and Trade Division (2006), "Serbia and Montenegro Union: Background and Pending Dissolution," Congressional Research Service, Library of Congress.
- Knack, Stephen and Keefer Phillip (1995), "Institutions and economic performance: cross-country tests using alternative institutional measures," *Economics & Politics*, 7(3), 207-227.
- Knutsen, Carl. H. (2012), "Democracy, state capacity, and economic growth," *World Development*, 43, 1-18.
- Kuznets, Simon and Murphy, John T. (1966), *Modern economic growth: Rate, structure, and spread* (Vol. 2), New Haven: Yale University Press.
- Madison, James (2009), "The Federalist No. 10", In Hamilton Alexander, Madison James and Jay John, Dunn John, Horowitz Donald L. and Botting Eileen H, *The Federalist Papers*, Yale University Press, 47-53. Available at <https://www.jstor.org/stable/j.ctt5vm398>.
- Madison, James (2009), "The Federalist No. 51", In Hamilton Alexander, Madison James and Jay John, Dunn John, Horowitz Donald L. and Botting Eileen H, *The*

- Federalist Papers*, Yale University Press, 263-267. Available at <https://www.jstor.org/stable/j.ctt5vm398>.
- Maguire, Moira and Delahunt, Brid (2017), "Doing a thematic analysis: A practical, step-by-step guide for learning and teaching scholars," *AISHE-J: The All Ireland Journal of Teaching and Learning in Higher Education*, 9(3).
- Mann, Michael (1984), "The autonomous power of the state: its origins, mechanisms and results," *European Journal of Sociology/Archives européennes de sociologie*, 25(2), 185-213.
- Mann, Michael (1993), *The Sources of Social Power: Volume 2, The Rise of Classes and Nation-States, 1760-1914* (2), New York: Cambridge University Press.
- Mann, Michael (2008), "Infrastructural power revisited", *Studies in comparative international development*, 43(3-4), 355.
- Marshall, Monty G. (2019), "Major Episodes Of Political Violence, 1946-2018," Center for Systemic Peace, Available at <http://www.systemicpeace.org/inscrdata.html>.
- Marshall, Monty G. (2019), "Major Episodes Of Political Violence (MEPV) And Conflict Regions, 1946-2018," Center for Systemic Peace, Available at <http://www.systemicpeace.org/inscr/MEPVcodebook2016.pdf>.
- Marshall, Monty G., Gurr, Ted R. and Jagers, Keith (2019), "Polity IV Annual Time-Series, 1800-2018," Center for Systemic Peace, Available at <http://www.systemicpeace.org/inscrdata.html>.
- Marshall, Monty G., Gurr, Ted R. and Jagers, Keith (2019), "Polity IV Project, Political Regime Characteristics and Transitions, 1800-2018, Dataset Users' Manual," Center for Systemic Peace, Available at <http://www.systemicpeace.org/inscr/p4manualv2018.pdf>.
- Moisés Naím (n.d.), Biography, Available at <https://www.moisesnaim.com/biography>.
- Mukand, Sharun W. and Rodrik Dani (2019), "The Political Economy of Liberal Democracy." *The Economic Journal*. Forthcoming, Available at <http://j.mp/2oSx0v3>.
- NATO (2019), Member countries, Available at https://www.nato.int/cps/en/natohq/topics_52044.htm.

- North, Douglass C. (1990), *Institutions, Institutional Change, and Economic Performance*, Cambridge: Cambridge University Press.
- O'Brien, James C. (2010), "The Dayton Constitution of Bosnia and Herzegovina". Framing the state in times of transition, 332-349.
- OECD (2019), SIGMA, About Sigma, At a glance, Available at <http://www.sigmaweb.org/about/>.
- OSCE (1995), Accords, Dayton Peace. "The General Framework Agreement for Peace in Bosnia and Herzegovina," Available at <https://www.osce.org/bih/126173?download=true>.
- Roser, Max (2019), Our World in Data, As the world's poorest economies are stagnating half a billion are expected to be in extreme poverty in 2030, Available at <https://ourworldindata.org/extreme-poverty-projections>.
- Rostow, Walt W. (1990). *The stages of economic growth: A non-communist manifesto*. Cambridge university press.
- Sen, Amartya (1985), "Well-being, agency and freedom: The Dewey lectures 1984," *The journal of philosophy*, 82(4), 169-221.
- Skocpol, Theda (1985), "Bringing the State Back In," 3-37, in *Bringing the State Back In*, edited by Evans, Peter B, Rueschemeyer, Dietrich and Skocpol, Theda, Cambridge: Cambridge University Press.
- Soifer, Hillel (2008), "State infrastructural power: Approaches to conceptualization and measurement," *Studies in Comparative International Development*, 43(3-4), 231.
- Soifer, Hillel and Vom Hau, Matthias (2008). "Unpacking the Strength of the State: The Utility of State Infrastructural Power," *Studies in Comparative International Development*, 43(3-4), 219.
- Stiblar, Franjo (2013), "Economies of federal units of ex-Yugoslavia after independence," SENTENTIA. European Journal of Humanities and Social Sciences, 100-119.
- Subotic, Jelena (2010), *Hijacked justice: Dealing with the past in the Balkans*, Cornell University Press.
- Tanzi, Vito (1998), "Corruption around the world: Causes, consequences, scope, and cures," *Staff Papers*, 45(4), 559-594.

- Tavares, Jose and Wacziarg, Romain (2001), "How democracy affects growth," *European economic review*, 45(8), 1341-1378.
- Teorell, Jan, Dahlberg, Stefan, Holmberg, Sören, Rothstein, Bo, Pachon, Natalia A., and Svensson, Richard (2018), "The Quality of Government Standard Dataset," University of Gothenburg: The Quality of Government Institute, Available at <http://www.qog.pol.gu.se> doi:10.18157/QoGStdJan18.
- Transparency International (2015), Data and Methodology, "Corruption Perceptions Index 2015: Full Source Description," Available at <https://www.transparency.org/cpi2015#downloads>.
- Transparency International (2018), Anti-corruption glossary, State capture, Available at https://www.transparency.org/glossary/term/state_capture.
- Transparency International (2018), Dataset, "Corruption Perceptions Index 2017: Score evolution since 2012," Available at https://www.transparency.org/news/feature/corruption_perceptions_index_2017.
- UNDP (2010), Summary Human Development Report 2010, 20th Anniversary Edition, "The Real Wealth of Nations: Pathways to Human Development," Available at http://hdr.undp.org/sites/default/files/hdr_2010_en_summary.pdf.
- UNDP (2018), Human Development Indices and Indicators: 2018 Statistical Update, Technical Notes, Available at http://hdr.undp.org/sites/default/files/hdr2018_technical_notes.pdf.
- UNDP (2018), Human Development Reports, Human Development Data (1990-2017), Available at <http://hdr.undp.org/en/data>.
- UNDP (2019), Human Development Reports, Income inequality, Gini coefficient, Available at <http://hdr.undp.org/en/indicators/67106#b>.
- UNICEF (2019), UNICEF Data, Child mortality data, Available at <https://data.unicef.org/resources/dataset/child-mortality/>.
- UNRISD (2013), "Inequalities and the Post-2015 Development Agenda," Available at [http://www.unrisd.org/80256B3C005BCCF9/%28httpAuxPages%29/ACFC5542FBD29F44C1257B08005902E4/\\$file/02%20-%20Inequalities.pdf](http://www.unrisd.org/80256B3C005BCCF9/%28httpAuxPages%29/ACFC5542FBD29F44C1257B08005902E4/$file/02%20-%20Inequalities.pdf).

United Nations (n.d.), International Residual Mechanism for Criminal Tribunals,
International Criminal Tribunal for the former Yugoslavia, The Conflicts,
Available at <https://www.icty.org/en/about/what-former-yugoslavia/conflicts>.

Wahman, Michael, Teorell, Jan and Hadenius, Axel (2013), "Authoritarian Regime
Types Revisited: Updated Data in Comparative Perspective," *Contemporary
Politics*, 19(1), 19-34, Available at
<https://sites.google.com/site/authoritarianregimedataset/home>.

World Bank (2019), Data, Arable Land, Available at
<https://data.worldbank.org/indicator/AG.LND.ARBL.ZS>.

World Bank (2019), Data Catalog, GINI Index (World Bank Estimate), Available at
<https://datacatalog.worldbank.org/gini-index-world-bank-estimate-1>.

APPENDIX: SUPPLEMENTARY MATERIAL

Figure A.1: Scree plot of eigenvalues after factor

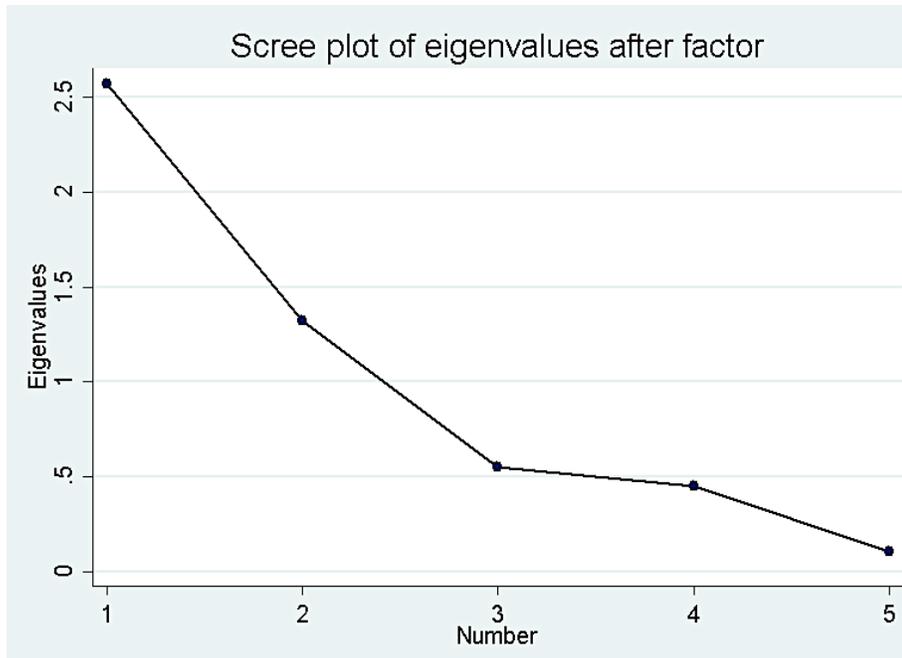


Table A.1: Rotated factor loadings

Variable	Factor 1	Factor 2	Factor 3
Polity Fragmentation	0.09	0.57	0.03
Political Violence	0.17	0.63	0.10
Constraints on Executive	0.87	-0.08	-0.08
Civil Liberties	0.92	0.22	0.12
Corruption	0.64	0.27	0.31

Table A.2: Dependent variables summary

Dependent Variable	Measurement	Description	Source
Economic Growth	$\{[(GDP_{17} - GDP_{07}) - 1] / 10\} \times 100$	Average annual economic growth rate over the last decade measured in percentage. Obtained using GDP at constant national 2011 prices.	Feenstra, et al. (2015)
Income Distribution	Gini coefficients 2010-2017 (last available data)	Deviation of income distribution within an economy from a perfectly equal distribution.	UNDP (2018)
Human Capital Development (HKDI)	Modified HDI 2017 (geometric mean of health and education dimensions) $(I_{Health} \cdot I_{Education})^{1/2}$	Measure of human capital including health and education indicators to capture well-being.	UNDP (2018)

Table A.3: Independent variables summary

Independent Variable	Measurement	Description	Source
Infrastructural Power Index	Composite of: - Polity - Fragmentation - Political Violence	Measure of reach of the state's power and its ability to consistently exercise its decisions.	Marshall et al. (2019); Marshall (2019)
Inclusiveness Index	Composite of: - Constraints on Executive - Corruption - Civil Liberties	Measure of state-society power balance; degree to which government is constrained in its decision making by the people.	Marshall et al. (2019); Transparency International (2018); Freedom House (2019)

Table A.4: Control variables summary

Control Variable	Description	Source
Ethnic Fractionalization	“The probability that two randomly selected people from a given country will not share a certain characteristic.”	Alesina et al. (2003); Teorell et al. (2018)
Arable Land	A percentage of land area “under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow.”	World Bank (2019)
Colony	Binomial variable: <ul style="list-style-type: none">• 1 – colony• 0 – not colony	Teorell et al. (2018); Wahman et al. (2013); Hadenius and Teorell (2007)

Table A.5: Institutional Matrix

		Infrastructural Power Index	
		WEAK	STRONG (>10.5)
Inclusiveness Index	HIGH (>17.5)		Australia, Austria, Belgium, Botswana, Canada, Cape Verde, Chile, Costa Rica, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Japan, South Korea, Latvia, Lithuania, Luxembourg, Mauritius, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Taiwan, United Kingdom, United States, Uruguay
	LOW	Afghanistan, Azerbaijan, Bosnia and Herzegovina, Central African Republic, Colombia, Democratic Republic of Congo, Georgia, India, Iraq, Mexico, Moldova, Myanmar, Nigeria, Pakistan, Philippines, Somalia, Sudan, Syria, Ukraine, Yemen	Albania, Algeria, Angola, Argentina, Armenia, Bahrain, Bangladesh, Belarus, Benin, Bhutan, Bolivia, Brazil, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, Chad, China, Comoros, Congo, Cuba, Djibouti, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Greece, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Indonesia, Iran, Jamaica, Jordan, Kazakhstan, Kenya, North Korea, Kuwait, Kyrgyzstan, Laos, Lebanon, Lesotho, Liberia, Libya, North Macedonia, Madagascar, Malawi, Malaysia, Mali, Mauritania, Mongolia, Montenegro, Morocco, Mozambique, Namibia, Nepal, Nicaragua, Niger, Oman, Panama, Papua New Guinea, Paraguay, Peru, Qatar, Romania, Russia, Rwanda, Saudi Arabia, Senegal, Serbia, Sierra Leone, Singapore, Solomon Islands, South Africa, South Sudan, Sri Lanka, Suriname, Swaziland, Tajikistan, Tanzania, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Uganda, United Arab Emirates, Uzbekistan, Venezuela, Vietnam, Zambia, Zimbabwe

3

1

2

Table A.6: Intercoder reliability check: Bosnia and Herzegovina

Themes	Subthemes	Rater agreement
Low Infrastructural Power	<ul style="list-style-type: none"> Decapitalized central government (limited role of central government; fragmented institutions; low enforcement) 	✓
	<ul style="list-style-type: none"> Government failures (political instability; low functionality) 	✓
	<ul style="list-style-type: none"> Status quo (implementation gap; no capacity) 	✓
	<ul style="list-style-type: none"> Ethno-national monoliths (opposing interests) 	✓
Low Inclusiveness	<ul style="list-style-type: none"> Shadow system (politics outside the formal system; no transparency) 	✓
	<ul style="list-style-type: none"> Three blocs of totalitarianism (political elites from three ethnic blocs control everything) 	
	<ul style="list-style-type: none"> Captured institutions (corruption; abuse of the office; politics not about public welfare) 	✓
	<ul style="list-style-type: none"> No correction mechanism (judiciary not independent; no accountability) 	✓
Yugoslavian legacy: 'Multiple personality disorder'	<ul style="list-style-type: none"> Party state legacy 	
	<ul style="list-style-type: none"> Separated by differences (identity confusion; East vs West) 	✓
	<ul style="list-style-type: none"> Union of peoples, not citizens (identification by ethnic heritage) 	✓
	<ul style="list-style-type: none"> External influences (OHR, Russia, Turkey, Serbia, Croatia) 	✓
% Agreement Number of checks		83.3 10/12

Table A.7: Intercoder reliability check: Croatia

Themes	Subthemes	Rater agreement
High Infrastructural Power	<ul style="list-style-type: none"> • Centralized government (weaker enforcement further from Zagreb) 	✓
	<ul style="list-style-type: none"> • Overlap in responsibilities/powers (vague policies; unclear lines between government levels) 	✓
	<ul style="list-style-type: none"> • Politics dimension of enforcement (politically appointed officials; enforced what suits political interest) 	✓
	<ul style="list-style-type: none"> • Regressive politics (competing political interest; public welfare not priority; no greater vision) 	✓
High Inclusiveness on paper	<ul style="list-style-type: none"> • Political influence omnipresent (no politically independent institution; no correction mechanism; no accountability) 	✓
	<ul style="list-style-type: none"> • Informal channels (no transparency; corruption) 	✓
	<ul style="list-style-type: none"> • Democracy- lesson not yet taught (weak incisiveness; low rule of law) 	✓
	<ul style="list-style-type: none"> • Far from pluralistic society (discriminating minorities) 	✓
Yugoslavian legacy: Identity issue	<ul style="list-style-type: none"> • From Balkan to Europe (many promises prior EU accession; after accession backslide) 	✓
	<ul style="list-style-type: none"> • Strong legacy of old system (although in EU, still old regime mindset) 	✓
	<ul style="list-style-type: none"> • History in the way of future (instead of reform, history talked over) 	✓
	<ul style="list-style-type: none"> • Lack of vision (populist rhetoric to attract voters, instead of reforms) 	✓
% Agreement Number of checks		100 12/12

Table A.8: Intercoder reliability check: Montenegro

Themes	Subthemes	Rater agreement
High Infrastructural Power	<ul style="list-style-type: none"> • Authoritarian regime (perfect control mechanisms; capacity not a problem, but political will) 	✓
	<ul style="list-style-type: none"> • 3 decades of same leadership (pretense of democracy) 	✓
	<ul style="list-style-type: none"> • Mafia state (organized crime) 	✓
	<ul style="list-style-type: none"> • State capture 	✓
Low Inclusiveness	<ul style="list-style-type: none"> • Public office - end in itself (no notion of public welfare) 	✓
	<ul style="list-style-type: none"> • Crime as a norm (widespread corruption and abuse of public office; no checks and balances) 	✓
	<ul style="list-style-type: none"> • No transparency (difference in practice and theory) 	✓
	<ul style="list-style-type: none"> • Civil society-don Quixote (many protests and initiatives but with little success; threats to those who rebel) 	✓
Yugoslavian legacy: Fight for Montenegrin identity	<ul style="list-style-type: none"> • Yugoslavian fund for undeveloped (young and undeveloped institutions (not self-sufficient) after breakup) 	✓
	<ul style="list-style-type: none"> • From one dictatorship to another (leadership style preserved) 	✓
	<ul style="list-style-type: none"> • Independence Movement (before and after) 	✓
	<ul style="list-style-type: none"> • Tradition of patriarchal society (translated to governance style: 'one man in charge') 	
% Agreement Number of checks		83.3 10/12

Table A.9: Intercoder reliability check: North Macedonia

Themes	Subthemes	Rater agreement
High Infrastructural Power	<ul style="list-style-type: none"> • Multi-ethnic blocs (tensions/divisions) 	✓
	<ul style="list-style-type: none"> • Formal/informal rule of law (selective enforcement) 	✓
	<ul style="list-style-type: none"> • Politics through informal channels (governance on paper vs reality) 	
	<ul style="list-style-type: none"> • Core/periphery capacity gap 	✓
Low Inclusiveness	<ul style="list-style-type: none"> • Party membership like a passport (political suitability, not merit for office) 	✓
	<ul style="list-style-type: none"> • Quid pro quo system (abuse of public office; corruption; politically influenced judiciary) 	✓
	<ul style="list-style-type: none"> • Criminal dimension of government (illegal activities of high public officials) 	✓
	<ul style="list-style-type: none"> • Command from the top (control of the institutions; no accountability) 	✓
Yugoslavian legacy: Political dysfunctionality	<ul style="list-style-type: none"> • Weak institutions (too many instabilities through history) 	✓
	<ul style="list-style-type: none"> • Back and forth on the EU path (no clear strategy; internal tensions stopping progress) 	✓
	<ul style="list-style-type: none"> • Low human development 	✓
	<ul style="list-style-type: none"> • Anarchy under pretense of democracy 	✓
% Agreement Number of checks		91.7 11/12

Table A.10: Intercoder reliability check: Serbia

Themes	Subthemes	Rater agreement
High Infrastructural Power	<ul style="list-style-type: none"> • Mafia state (parallel system along formal institutions) 	✓
	<ul style="list-style-type: none"> • Concentration of power (authoritarian regime; everything controlled by the political leadership) 	✓
	<ul style="list-style-type: none"> • Command and control (executive dominates; one center of power) 	✓
	<ul style="list-style-type: none"> • Enforcement dependent on political will (differences in practice and theory) 	✓
Low Inclusiveness	<ul style="list-style-type: none"> • Executive=legislative=judiciary (no separation between branches of government; decisions behind closed doors, no transparency) 	✓
	<ul style="list-style-type: none"> • No correction mechanism (no accountability) 	✓
	<ul style="list-style-type: none"> • CSO scene filled by GONGOs (simulation of civil society) 	✓
	<ul style="list-style-type: none"> • No resistance to leading political party (threats to those who oppose regime) 	✓
Yugoslavian legacy: Old system still in shadow	<ul style="list-style-type: none"> • Incomplete transition (institutions built on ruins of the old system-authoritarian style inherited) 	
	<ul style="list-style-type: none"> • Devastated institutions (weakened institutions; abused for personal interest of elite) 	✓
	<ul style="list-style-type: none"> • East or West dilemma (EU or Russia) 	✓
	<ul style="list-style-type: none"> • Kosovo issue (In Constitution of Serbia, Kosovo still mentioned as part of Serbia) 	✓
% Agreement Number of checks		91.7 11/12

Table A.11: Intercoder reliability check: Slovenia

Themes	Subthemes	Rater agreement
High Infrastructural Power	<ul style="list-style-type: none"> Centralized government (no regional level; local levels differ in capacity) 	✓
	<ul style="list-style-type: none"> Selective enforcement (dependent on political will) 	✓
	<ul style="list-style-type: none"> Over-bureaucratization (lot of administrative problems) 	✓
	<ul style="list-style-type: none"> Lack of national strategy (performing bad on EU scale) 	✓
High Inclusiveness in theory	<ul style="list-style-type: none"> Political influence systemic (judiciary not independent; policymaking selectively transparent) 	
	<ul style="list-style-type: none"> Low trust in public sector (corruption; no accountability; abuse of public office) 	✓
	<ul style="list-style-type: none"> Low competition among political actors (same actors on political scene; civil society needs to be more active) 	✓
	<ul style="list-style-type: none"> Some initiatives to improve social welfare 	✓
Yugoslavian legacy: Transition only in face value	<ul style="list-style-type: none"> Parallel power structures (informal centers of power; policymaking by political elite) 	✓
	<ul style="list-style-type: none"> Mock democracy (does civil society exist?) 	✓
	<ul style="list-style-type: none"> Fake umbrella of security (EU regulations on paper, but many things not functioning in practice) 	✓
	<ul style="list-style-type: none"> Between Yugoslavia and EU (old regime mindset still present) 	✓
% Agreement Number of checks		91.7 11/12