

Revisiting Historical and Modern State Development*

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Abstract

Our understanding of state development—a term that encompasses both state formation and state building—has grown significantly in the last two decades. In this review, I outline the foundations of the literature and identify major conceptual and analytical advancements since the early 2000s, including the development of capacity investment models, the notion of intermediate institutions, and the emphasis on political agency. This review builds on research employing diverse methodologies, draws on examples from advanced economies and developing countries, and is intended for both novice and experienced readers. After taking stock of the state of the field, I discuss and reflect upon three avenues for further research—the big unknowns: Do civil wars make or break the state? How do economic openness and international hierarchy shape the incentives and opportunities for state building? And what are the perils that highly capable states pose for liberal rights and democratic governance?

Keywords: state building; state formation; civil war; open economy; bureaucracy.

[Unedited]

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1 Introduction

Modern states secure order, enforce contracts, and provide welfare-enhancing public goods—ranging from primary schools to functional courts to cancer research. *When did modern states emerge, and how did they evolve into highly sophisticated hierarchical organizations?* These questions have captured the attention of social scientists across political science, sociology, and economics, with interest accelerating notably in recent years.

Since the early 2000s, the study of state development—encompassing both state formation and state-building—has expanded its regional scope and benefited from the mass digitization of historical archives. Recent contributions have combined formal models, detailed historical narratives, and well-identified causal effects, offering new insights into the challenges and trade-offs faced by ruling elites in their efforts to build functional states. To fully appreciate how much the field of state development has evolved over the past twenty years—becoming more global in scope, nuanced, and data-intensive—readers are encouraged to consult Hendrik Spruyt’s insightful piece in the *Annual Review* of 2002.

This review aims to bring structure to this rapidly expanding literature. I examine advances in theories of “state formation,” which focus on the process of territorial consolidation and the establishment of a central authority’s monopoly on violence, as well as theories of “state building,” which explore the conditions that enable states to develop the administrative, physical, and legal capacities necessary for ruling elites to translate political will into action. While the boundary between state formation and state building can sometimes be blurred, maintaining a conceptual distinction between them makes the analysis of state development significantly more tractable.

This survey begins in the early modern period and extends to the present day, considering the development of state surveillance technologies and artificial intelligence.¹ I have

¹Students of *early* state formation can refer to Allen, Bertazzini and Heldring (2023) for surplus theories; Scott (2017) and Mayshar, Moav and Pascali (2022) for appropriability theories; Mayoral and Olsson (2024) and Schönholzer and François (2023) for circumscription theories; and Boix (2015) for human capital theories of state formation. Also, Dal Bó, Hernández-Lagos and Mazzuca (2021) consider a fundamental security–growth dilemma in early state formation.

made an effort to represent various perspectives, regions, and methodologies; however, the selection is necessarily incomplete and should be seen as an invitation to explore the broader scholarship more deeply. To engage both novice and specialized readers, I have identified key lessons learned over the last two decades and highlighted three unresolved questions—the big unknowns: the role of civil war in state development, the constraints and opportunities global markets offer for state-building, and the risks that strong state bureaucracies pose to individual liberties and democratic governance. I hope this discussion encourages readers to address these theoretical gaps and push the frontier of state development forward.

The review is organized into five sections. In Section 2, I examine the two pillars of state formation—territorial control and central authority. Section 3 focuses on state building theories by addressing five conceptual questions separately: First, what do we mean by *investing* in state capacity, and how does it differ from day-to-day policymaking? Second, what role do *intermediate* institutions play on the long path to the modern state? Third, how does institutional *emulation* influence state development? Fourth, what are the *distributive consequences* of state building, and under what conditions do potential losers organize to block state reform? And fifth, what do we mean by *state legibility*, and to what extent does it rely on society’s willingness to be “seen by the state” (Scott, 1998)? After addressing these questions, Section 4 explores three unresolved issues in state development research: the role of civil war, international constraints, and surveillance technologies. I conclude with some final remarks in Section 5.

2 State Formation

The formation of a modern state is a joint process of territorial consolidation and centralization of power. Territorial consolidation occurs when hard borders are established, defining the physical space of the sovereign and its *demos*—determining who is included and who is excluded. Power is centralized when “shared sovereignty” is eradicated (Herbst, 2000),

meaning that chiefs, lords, priests, and their followers acknowledge that ultimate authority resides with a *central ruler*, who may (or may not) be democratically elected and preside over a unitary or federal government.

2.1 Territorial Consolidation

Modern states have bounded territories within which they hold a monopoly on violence. Although large-scale territorial states are now commonplace, this is a relatively recent phenomenon. In Europe, territorial states coexisted with city-states until the end of the eighteenth century (Abramson, 2017; Stasavage, 2011). In Africa and South Asia, territorial states remained rare until the late nineteenth century, when hard territorial borders were still lacking and center-periphery relations were largely tributary and nonexclusive (Herbst, 2000; Paik and Vechbanyongratana, 2019).

Acharya and Lee (2022) integrate international relations theories on the origins of the *state system* with economic microfoundations in political economy to explain why the territorial state came to dominate the world. The *cartel theory* depicts the state system as a collusive arrangement between state rulers, who agreed to segment the market for governance and exercise monopoly power to tax and govern within their respective territories, free from competition from other states. This oligopolistic arrangement benefited states—the ruling class—at the expense of citizens, who paid higher taxes and received fewer services than they would in a competitive governance market.

The territorial size of a state was determined by the ruler’s valuation of governance—the difference between the revenue extracted from a given territory and the cost of maintaining order. In its simplest form, the value of governance decreased the farther a region was from the capital. A neighboring state might find it profitable to govern another state’s periphery, allowing both rulers to extract more tax revenue than the cost of maintaining order. In a competitive market for governance, locals in the periphery could negotiate favorable conditions (e.g., better services and lower taxes), effectively setting a price for their

loyalty toward one or another ruler. To prevent this, rulers negotiated borders, colluded to maintain territorial monopolies, and professed mutual recognition—marking the origins of international sovereignty. Citizens lost, rulers won, and the territorial state consolidated.

The cartel theory casts doubt on contractarian theories of state formation dating back to Rousseau and sheds light on the many obstacles that stateless nations face in gaining statehood. Today, the world is a club of territorial states in which members have little incentive to expand membership.

2.2 Centralization of Power

In a modern state, ultimate political authority resides with the central ruler, whether called a monarch, sultan, or president. However, this has not always been the case, and in some countries, it remains debatable. Historically, sovereignty was shared among the central ruler, feudal lords, religious leaders, and traditional authorities. *How was this shared sovereignty eradicated?* Charles Tilly and Douglass North provide canonical analyses of political centralization in Western Europe.

2.2.1 Power Centralization in Europe

Tilly (1990) argues that the increasing cost of war resulting from the military revolution exceeded the financial capabilities of feudal lords to secure protection. Exploiting royal prerogatives, kings stepped in to coordinate defense by leveraging economies of scale in military production. Kings protected feudal lords from foreign enemies in exchange for taxation and political recognition. War finance allowed kings to consolidate both territory and political authority over lesser lords on a permanent basis.

North (1981) provides a market-based rationale for power centralization. Feudal economies were unfriendly to trade, with internal tolls, guilds, banditry, and low standardization of weights, measures, and coinage hindering market exchange. Kings offered merchants and traders an alternative path—access to larger and homogeneous markets, stronger property

rights, and a standardized legal code—in exchange for the recognition of the monarch’s authority over lesser lords. A confluence of self-interest—political power and market profit—helped replace feudalism with centralized authority.

Tilly’s and North’s insightful accounts are not without criticism. Both models assume monarchs had a comparative advantage over lesser lords (in military and market production, respectively) but are silent about the origins and timing of this advantage. Specific to Tilly, Abramson (2017) disputes the notion that large territorial states were necessary for efficiency gains in military production. He shows that European polities actually *fragmented further* as the military revolution unfolded, seemingly contradicting Tilly’s justification for large territorial states with centralized power. Consistent with Tilly, however, Dincecco (2011) shows that per capita tax revenue in Europe peaked following political centralization. Thus, while European state history is more varied than often believed, the strongest territorial states in Europe did result from political centralization.²

2.2.2 Power Centralization Outside Europe

Centralizing authority is a delicate matter because it can alienate powerful regional elites. Focusing on different regions of the world, Garfias and Sellars (2022) and Wang (2022) examine centralizing efforts in the Spanish Empire in Latin America and in China, respectively.

Garfias and Sellars (2021, 2022) examine the political trade-offs involved in replacing indirect with direct control in the Spanish Empire in Latin America. Successful implementation of direct rule would allow the empire to save on side payments to regional elites and retain more bullion for itself. However, these regional elites were also strategic allies in containing mass revolts that occasionally arose from poor harvests and plagues (i.e., exogenous shocks). If the Spanish pushed too aggressively against regional elites, they risked them shirking their responsibilities in managing localized protests, potentially allowing such unrest to escalate into empire-threatening revolts. Garfias and Sellars analyze the precarious path to political

²See Spruyt (2002) for a dedicated review of state development in Western Europe.

centralization under these circumstances. The Spaniards failed to effectively leverage the empire’s revenue to build and maintain a standing army capable of suppressing localized revolts. This strategic miscalculation contributed to the gradual decline of the Spanish Empire in the region.

Wang (2022) identifies conditions under which regional elites *support* the centralization of political authority. Examining state development in China over the last millennium, Wang finds that geographically dispersed elites connected by kin supported a strong central state because it generated scale economies in providing protection and justice throughout the vast imperial territory, thus benefiting all members of the kinship group. When kin networks were divided and geographically concentrated, a weaker but comparatively more stable central authority emerged. The emperor was *weaker* because he did not penetrate regions under the influence of dense, spatially concentrated kin networks; however, his rule was more *stable* because geographically concentrated networks prevented elite coordination and generalized revolt that could topple the ruling dynasty.³ Built on a scholarly tradition emphasizing state–society linkages (Migdal, 1989), Wang’s theory offers an original model of state formation that is refreshingly different from bellicist and commercial accounts.

3 State Building

Once a state is formed, rulers must develop “state capacity”—the technical and material means to achieve their intended goals. Political science has seen a surge of research on the causes of state capacity, largely driven by the analytical clarity provided by Besley and Persson (2011). I begin this section by reviewing one of Besley and Persson’s key contributions to the study of state building: the distinction between policymaking and *investment* in institutional capacity. Next, I explore an important methodological aspect in the analysis of state building: the role of *intermediate* institutions. Third, I discuss recent advances

³Transitions from one type of network to another or “social terrain” happened for exogenous reasons like climate shocks.

in *institutional emulation*—a shortcut to adopting state technologies. Fourth, I examine how political scientists view political competition in the context of state building. Finally, I comment on a relatively recent concept in the state-building literature: ‘legibility’ (Scott, 1998).

3.1 Policy vs. Institutions

Besley and Persson (2011) distinguish between “fiscal” and “legal capacity.” The former refers to the state’s ability to assess and collect taxes, and the latter pertains to the state’s capacity to enforce contracts and secure property rights. Fiscal capacity requires a professional tax administration equipped with the necessary material and legal resources to assess wealth, collect taxes, and sanction tax evaders. Legal capacity—comparatively underresearched—necessitates clearly defined codes, due process, and independent courts.

Arguably, Besley and Persson’s (2011) most significant contribution to the analysis of state building is establishing a framework that distinguishes policy-making from institution building. Policy-making is constrained by existing institutional capacity. For instance, the enforcement of a new business tax—a policy—is limited by the current stock of human and material resources of the national tax agency—the institution. The ruler can either operate within the limits of the current institution or expand it by *investing* in capacity. If they choose the latter, a portion of today’s tax revenue is invested in expanding tomorrow’s capacity, such as by recruiting and training new tax inspectors and equipping them with additional resources. Upon institutional investment, tomorrow’s *policy* faces fewer constraints (i.e., more firms will be effectively audited), allowing the ruler to better translate political will into action, thereby expanding “state capacity.”

Investment in state capacity (fiscal, legal, or otherwise) is influenced by *political* considerations. The opposition might assume power in the future and use state capacity for general or particular interests. If today’s incumbent suspects that the opposition may use the state to expropriate rivals, the expected value of expanding state capacity declines. Besley and

Persson show that investment in state capacity is more likely when societies are cohesive and politically stable and when the value of public goods is high (e.g., in times of war). When societies are cohesive (e.g., low polarization) and politically stable—allowing leaders to think long-term—the incumbent invests in state capacity and use enhanced capabilities to provide “common-interest” public goods (e.g., universal childcare). When cohesiveness is low (e.g., pronounced ethnic fractionalization) but political stability is high, a “redistributive state” emerges. The incumbent invests in state capacity in this scenario, but the new capabilities are used to reward supporters at the expense of the opposition, which faces weaker property protections and higher taxes. When both political stability and cohesiveness are low, state capacity stagnates. If devaluation occurs, the state capabilities erode over time and become “weak.”

Besley and Persson’s elegant and flexible model brings significant analytical clarity to the state-building literature. It distinguishes policy from institution building and elaborates on the endogenous relationship between the two. This framework is and will likely remain a key reference for state-building literature for years to come.

3.2 Intermediate Institutions

The development of functional states can follow a path of incremental change and experimentation with second-best solutions. Tilly emphasizes the importance of “intermediate institutions” in the development of the modern state in Europe (1975, p.48). These institutions (e.g., venality, militias, and monopolies) played a “crucial” role in enabling the subsequent adoption of more efficient state capabilities.

Johnson and Koyama (2014) examine one such intermediate institution in early modern Europe: cabal tax farming. Monarchs at that time lacked the capacity to tax their population directly. Instead, they granted local elites the power to collect taxes. Would-be “tax farmers” bid for these monopoly concessions. They had first-hand information about local conditions (e.g., how productive the terrain was, how wealth was concealed) and calibrated their offer

accordingly. “Competitive bids” for tax farm concessions *revealed information* about the tax base of a given territory, enabling the monarch to “see like a state” (Scott, 1998).

Competitive tax farming proved satisfactory until the military revolution increased the cost of military technology. Tax revenue fell short, and monarchs were compelled to borrow; however, the pool of creditors was limited. The solution was to transform competitive tax farming into an oligopoly. The rents accrued by “cabal tax farmers” were then borrowed by the monarch. The oligopolistic nature of cabal tax farming helped to make sovereign debt promises credible. Being few and powerful, cabal tax farmers could coordinate and sanction the king if he breached the debt contract.

The appeal of cabal tax farming to a sitting monarch was relative to the cost of direct rule, a function of the polity’s scale.⁴ As transportation improved (e.g., with denser networks of canals and roads), the cost of direct rule decreased. Consequently, the monarchs of smaller and more homogeneous England transitioned away from cabal tax farming sooner than those of France. Cabal farming was an inefficient institution because it created oligopolist rents; however, it was crucial for European states to survive the military revolution, learn information about their terrain and population, and prepare for the next stage of state development: the Weberian state.

A modern-day example of second-best institutions can be found in the Democratic Republic of Congo (DRC). Balán, Bergeron, Tourek and Weigel (2022) study the trade-offs of delegating tax collection to local elites in a context of limited state capacity. Their randomized policy experiment reveals that local chiefs outperform state bureaucrats in tax collection, increasing tax receipts by 44%. Local chiefs have an informational advantage: they are less driven by objective measures of wealth and focus on taxpayers with a higher ability and willingness to pay—characteristics that remain unknown or “illegible” to state bureaucrats. Their study shows that information can be passed from chiefs to tax bureaucrats, helping the state grow its capacity. Although effective in mobilizing tax revenue, relying on interme-

⁴Scale often correlates with ethnic heterogeneity and varying terrain conditions, which increase the cost of standardization.

diaries in DRC is an inefficient solution: chiefs collect more bribes than state bureaucrats, creating a wedge between what taxpayers pay and what the government collects.

Johnson and Koyama (2014) and Balán et al. (2022) study two important cases of intermediate institutions, but the conditions under which incumbents *invest* in state capacity and leave behind inefficient institutions remain undetermined. I examine one such transition in Queralt (2015), where I endogenize the shift from protectionist policy to free trade as a function of investment in fiscal capacity. In this setting, the incumbent (they/them) is a revenue maximizer ruling over a country with limited fiscal capacity. Firms are profit maximizers and vary in their market competitiveness. Under a “mercantilist agreement,” the ruler secures market protection for noncompetitive firms in return for tax compliance. The ruler can use the extra revenue to build fiscal capacity. If they do, they may eventually abandon the mercantilist agreement, allowing more competitive firms in and taxing them at higher rates. I show that this transition occurs if mercantilism is not adopted too early in the development path (otherwise, the marginal cost of building capacity is too high) and when the ruler prioritizes the interests of consumers (as opposed to protected firms). In Europe this switch was completed in the second half of the nineteenth century, when trade barriers were dropped and government funding shifted from tariff to personal and consumption taxes. Mercantilism was inefficient because it increased prices and protected noncompetitive producers; however, it was necessary to generate the fiscal space needed to fund capacity building.

These three accounts of second-best institutions highlight the need for a better understanding of *unorthodox* paths to the modern state. Solutions that perform well in contexts of high state capacity may backfire in other settings if scope conditions are not met. For instance, Baunsgaard and Keen (2010) show that liberalization of trade *before* fiscal capacity had been sufficiently strengthened deprived treasuries in the Global South of much-needed tax revenue. Policy recommendations for state building should carefully assess local conditions and adapt to the current stage of development.

3.3 Emulation

Sometimes state technologies are not developed endogenously but instead mimic other organizations. Grzymala-Busse (2023) has shown that European monarchs emulated key state technologies implemented by the Roman Catholic Church. The latter used its unmatched financial and intellectual powers to fragment the European state system and weaken the authority of secular rulers. Monarchs fought back by adopting many of the Church’s technologies, including justice administration, tax collection, and record keeping (as well as representative institutions). Over time, secular monarchs developed sufficient state capacity to field large armies, confront the Church, and prevail. The Church’s aggressive tactics against secular competitors ultimately backfired, but the state technologies remained, albeit in secular hands.

State technologies are often copied from other states. After the Meiji Restoration, Japan sent envoys to Europe to study cutting-edge administrative and military technologies. Similarly, the Ottomans adopted essential modern budgeting techniques, such as double-entry bookkeeping, from the French (Queralt, 2022, ch.6 and 9). Centuries earlier, Korean and Japanese elites emulated China’s state technologies, adopting its criminal and administrative codes as well as new taxation methods (Huang and Kang, 2022).

The emulation of the state technologies of competing organizations is not predetermined. Unlike their Catholic counterparts, religious leaders in the Middle East did not dispute secular authority; however, they maintained control of education and welfare provision through the establishment of pious trusts or “waqfs,” which protected private wealth from state predation (Kuran, 2011). By securing public goods, religious leaders grew their influence and created a lasting source of legitimacy competing with secular rulers (Blaydes and Chaney, 2016).⁵

State-building scholarship suggests that new state technologies can challenge the political status quo, creating winners and losers, thus garnering supporters and fierce opponents. Our

⁵Refer to Blaydes (2017) for a dedicated review of state building in the Middle East.

understanding of state building will benefit from further analysis of the conditions under which emulation and diffusion occur or are averted.

3.4 Political Competition

Political scientists have extensively studied how winners and losers of state capacity organize to advance their interests, particularly in the areas of taxation and redistribution. Scheve and Stasavage (2010, 2016) examine the conditions under which the wealthy agreed to high tax progressivity. They propose a class-based theory of income and inheritance tax *progressivity* rooted in considerations of social fairness. The poignant loss of working-class soldiers in European trenches during World War I ultimately compelled the wealthy in belligerent countries to accept higher tax rates on their wealth. Scheve and Stasavage present evidence that mass mobilization during the war led to a lasting increase of over 30 percentage points in income tax rates. The poor sacrificed their lives; the rich conscripted their wealth.

Mares and Queralt (2015, 2020) advance a sector-based theory of income tax *adoption*. They argue that in nineteenth-century Europe, landed elites *sponsored* the income tax to inflict political and economic costs on the rising industrial sector. The new tax modernized wealth disclosure and tax assessment techniques, tapping into new pockets of industrial income previously “unseen” by premodern tax codes. In practice, the income tax shifted the incidence of taxation from land to industry and by making income tax payment a requirement for voting qualifications, disenfranchised segments of the urban middle class. The income tax, historically regarded as a conquest of the left, had in fact a marked *conservative* origin.

Suryanarayan and White (2021) deviate from one-dimensional political competition to examine the impact of ethnic divisions in “ranked societies,” arguing that elites can appeal to non-economic factors such as race or caste to fragment the working class and hinder *investment* in fiscal capacity. They provide evidence of this by analyzing Reconstruction plans aimed at expanding state capacity in the American South following the Civil War.

White planters recognized the threat posed by a state capable of redistributing wealth away from them and expanding publicly funded education to benefit the poor. To prevent the formation of a coalition between low-income white and black voters that could support state-building efforts, white elites invoked racial status to undermine any potential alliance among the poor.

Political science scholarship has uncovered key aspects of political competition and strategic decision-making in state-building efforts, primarily in advanced economies. Future research will benefit from theories tailored to different initial conditions and a diverse set of actors. For instance, Beramendi, Dincecco and Rogers (2019) demonstrate that the *absence* of an organized urban elite to counter large agricultural producers in Latin America led to the limited expansion of fiscal capacity and a continued reliance on regressive taxation from the mid-nineteenth century to the present.

3.5 Legibility

Prominent theories of state building have traditionally focused on the causes of fiscal capacity, but recent attention has shifted to improvements in “legibility”—the state’s knowledge of its population, activities, and resources, both human and physical. By mapping the population and terrain within their territory, rulers enhance their ability to tax, conscript, and prevent rebellion.⁶ Originally coined by Scott (1998) in his analysis of state–society relationships in Southeast Asia, the concept has been further popularized by Lee and Zhang (2017), D’Arcy and Nistotskaya (2018), and Brambor, Goenaga, Lindvall and Teorell (2020), who have developed quantitative measures of state legibility based on the precision and regularity of censuses and cadasters. Studying colonial Mexico, Garfias and Sellars (2024) provide what may be the first *causally identified evidence* that human-engineered improvements in legibility led to a significant increase in fiscal capacity.

⁶For a brief introduction to legibility, see Scott (2017, p.2). In a related argument, Mayshar, Moav and Pascali (2022) explore the importance of “agricultural transparency” for the emergence of the state in ancient Egypt and Mesopotamia. They demonstrate that society’s inability to escape state legibility facilitated organized extraction and the development of social hierarchy.

In the spirit of Scott’s (1998) original work, future researchers on legibility should consider how society reacts to legibility investments. A notable example is Bowles (2024), who analyzes the cost–benefit analysis of becoming legible to the state by complying with its demand for information. Bowles shows that citizens become legible to the state—and thereby subject to higher taxes—if the state can provide “narrow services” in return, such as access to *higher* education. Since wealthier individuals are more likely to find this trade-off worthwhile, advances in legibility can reinforce social hierarchy. Thus, Bowles (2024) not only demonstrates that society has agency in deciding on legibility but also reveals that otherwise desirable progress in state capacity may exacerbate social inequality.

4 Three Open Questions

4.1 Civil War

Many scholars studying state development focus on the effects of interstate war, yet intrastate war—civil war—has become the predominant type of conflict since 1960 (Pettersson and Öberg, 2020, Figure 3). Civil war is traditionally assumed to be detrimental to state development (Herbst, 2000; Reno, 1999). This view is supported by recent causally identified studies, such as Ch, Shapiro, Steele and Vargas (2018), who demonstrate that the presence of rebel groups in Colombia reduced municipal tax collection by undermining property rights protection.

Contrary to this conventional view, some scholars suggest that civil war may act as a catalyst for state building. Slater (2010) argues that internal conflict in Southeast Asia compelled ruling elites to act collectively, strengthen state institutions, and centralize authority. Revkin (2020) demonstrates that the Islamic State in Syria established both direct and indirect forms of taxation in the districts under their control, driven by a combination of ideological and financial motivations.

The seemingly contradictory findings in the last two paragraphs reflect the current state

of research on this topic. While we have a wealth of insightful, well-researched case studies and localized treatment effects, a comprehensive *theoretical framework* that explains when civil war has a positive, negative, or null effect on state development is still lacking. At a minimum, any scholar attempting to develop such a framework would need to separately consider the types of civil wars—secessionist versus nonsecessionist (Wimmer, 2013)—and the two stages of state development—state formation versus state building.

4.1.1 Type of Civil War

Secessionist civil war is likely to build state capacity. First, the *territorial* nature of this type of war makes it akin to interstate conflict: the “external” threat increases the value of public goods provision (e.g., defense) and the willingness to pay taxes (Besley and Persson, 2011). During the American Civil War, the North implemented a temporary income tax to fund war expenses, while the South relied on foreign loans (Flores-Macías and Kreps, 2013), consistent with financial strategies employed in interstate disputes (Queralt, 2019; Scheve and Stasavage, 2010). Second, in protracted conflicts, secessionist groups may seek to gain international legitimacy and the support of the non-secessionist population under their control by providing *universal* public goods (Stewart, 2018), potentially necessitating investment in fiscal capacity.

The effect of nonsecessionist civil war on state development is less clear. If war is limited to purging a specific elite group, the winning side may quickly fill the vacuum and implement state reform. Garfias (2018) shows that the forcible expropriation of economic elites following the Mexican Revolution was accompanied by long-term investment in state capacity, measured by tax revenue yields and state officials. This case suggests that civil war can positively impact state capacity by removing rent-seeking elites who oppose state reform; however, results could have differed if these elites possessed skills instrumental in state building (e.g., human capital).

When civil war pits societal groups defined by ethnicity, religion, or ideology against each

other, life-long neighbors may suddenly turn into informants and perpetrators—as occurred, for instance, during the Spanish Civil War (Balcells, 2017)—undermining the social fabric and trust required to sustain tax compliance and other forms of collective action (Besley, 2020). In sum, the *type* and dynamics of civil war can present opportunities to overcome resistance to state reform, but can also generate collective trauma and the loss of human capital. Future research on this topic should focus on identifying the conditions under which the positive effects of civil war outweigh its negative consequences for state development.

4.1.2 Effect on State Formation vs. State Building

A theory of civil war should differentiate between its effects on state formation—power centralization and territoriality—and state building—for instance, legal and bureaucratic capacity. Intuitively, civil war can help consolidate territoriality: by defeating a secessionist rebel group, the center hardens international borders and consolidates central authority in the affected territory. More subtly, civil conflict may forge individual loyalties to the central authority. Blair (2022) shows that victims of war violence in Liberia parted ways with traditional authorities (chiefs and secret societies) and approached the central state in search of political order and security.

Civil war can also influence state-building efforts: for instance, the coercive apparatus established during domestic conflict is likely to persist if it serves the interests of the winning side. *But under what conditions do incumbents invest in state capacity during civil war?* Sánchez de la Sierra (2020) provides a compelling answer by examining changes in the quality of fiscal and judicial administration in rebel-controlled villages in Eastern Congo. These villages are typically established to support either coltan or gold mines. Because coltan is bulky and difficult to conceal, rebels can easily implement customs taxes to fund local governance, further eroding the already limited state capacity. In contrast, rebels in gold-mining villages cannot rely on unsophisticated taxation methods because gold is easy to conceal and smuggle. In these villages, rebels are forced to develop both fiscal and legal

capacities to discourage tax evasion, enforce private contracts, and foster economic exchange. Sánchez de la Sierra’s analysis suggests that incumbents (rebels) are compelled to invest in state capacity during civil war when *social cooperation* is necessary to fund government operations.

4.1.3 Scalability

Rebel governance literature has shown significant progress in delineating the conditions under which rebel organizations substitute the state; however, we know far less about the conditions under which rebel governance can be scaled up or emulated.⁷ For instance, Liu (2022) examines the connection between civil war dynamics and postwar governance in sub-Saharan Africa. Rebel governments use three strategies to consolidate power: In rival strongholds, they deploy armed forces to secure order; in competitive regions or “unsecured terrain,” they send loyal bureaucrats to build local support; and in their own strongholds, they allow self-rule. Arjona (2016) examines rebel governance in Colombia, where guerrillas effectively substitute for the state by providing dispute settlement mechanisms to the local population. While both Liu (2024) and Arjona (2016) offer fascinating, first-rate accounts of rebel governance, the conditions under which governance strategies can converge across rebel zones or be emulated and scaled up by the central state remain unknown.

Civil war presents the greatest theoretical challenge to the literatures on state formation and state-building. Advancing in this area will require analytical clarity and a deep understanding of civil war dynamics and reconstruction efforts. The challenge is immense, but so is the potential contribution to the state development literature.

4.2 State Building in Open Economies

Monarchs in early modern Europe did not have to consider the laws of war, human rights protection, or free market provisions. They could invade, plunder, and ethnically

⁷See Weinstein (2007) for a general framework on rebel governance.

cleanse territories; split foreign markets; protect trade routes; and seize foreign property. Everything was permitted; bullion was the only limit. With European state consolidation came “international hierarchy” (Lake, 2009).

The cartel described in Acharya and Lee (2022) set the rules of international engagement: by professing mutual recognition of territorial sovereignty, European monarchs ensured that others would not do to them what they had done to others. By the early nineteenth century, international norms extended to rules of economic exchange. Traditionally isolated countries (e.g., Japan and China) and newly created states—most in Latin America—faced a different international system than Europeans had at earlier stages of state development, one governed by the free movement of goods and capital. In two recent accounts, Mazzuca (2021) and Queralt (2022) analyze state building in this unprecedented context. While focusing on different aspects—international trade and finance, respectively—both accounts deviate from structuralist perspectives by giving *agency* to state builders in the periphery.

4.2.1 Free Trade

Mazzuca (2021) argues that state development in Latin America followed a “trade-led” path distinct from the “war-led” model in Western Europe. In Europe, frequent wars compelled monarchs to pursue an inward conquest agenda, ultimately dismantling patrimonial rule by feudal lords. In contrast, *liberadores* and presidents in Latin America failed to centralize power due to the perverse incentives created by global markets. Export staples were produced in regions far from the capital and shipped internationally from seaports under central control. Because national treasuries relied heavily on the revenue generated by these customs houses,⁸ any attempt to forcibly remove regional elites would have jeopardized staple production, international trade, and government revenue. Faced with this dilemma, central rulers chose to forgo power centralization. Instead, they shared the spoils of office

⁸Customs duties represented 60–90% of all revenue for most of the nineteenth century (Centeno, 1997, Table 3). Although tariff revenue had been very important in Europe before 1800, it never reached such levels (Dal Bó et al., 2022).

with regional leaders and kept the economy open for business.

Mazucca argues that in Latin America, this strong reliance on trade revenue led to territorially stable but weak states. Regional elites exploited this situation to extend patrimonial relationships from the periphery to the central government, reinforcing the political autonomy of the periphery and trapping many countries in the region in a weak-state equilibrium.

4.2.2 Foreign Debt

In Queralt (2022), I examine a second difference in state development between Europe and the Global South: access to foreign credit during the early stages of state building. International credit markets were comparatively small before 1800, compelling European monarchs to rely on domestic elites for credit. These elites organized into parliaments (North and Weingast, 1989) or cartels (Johnson and Koyama, 2014) and held the monarch accountable for the use of funds. Failing to honor sovereign promises could result in irreparable political costs for the monarch.

The end of the Napoleonic Wars and the acceleration of the industrial revolution created a surplus of capital in European markets, encouraging private investors to buy public debt from Latin American, African, Middle Eastern, and Asian countries. With few exceptions sovereign leaders in the Global South used this opportunity to fund wars and large public infrastructure projects with foreign capital. Often, the rapid growth of public external indebtedness was not accompanied by any significant progress in fiscal capacity. In conditions of weak political accountability, high political instability, and poor fiscal capacity, local leaders preferred to contract fresh capital and maximize short-term interests, leaving future financial disarray for others to handle.

International investors were aware of these tactics and, to mitigate risk, required leaders to collateralize state monopolies, customs houses, and infrastructure. Default by weakly institutionalized countries did not take long and led to the foreclosure of collateral. The tax base shrank, and cash-strapped treasuries were obliged to float fresh debt and further

collateralize assets. By 1914 many nations in the Global South had lost access to key sources of domestic revenue and fallen into a debt trap with lasting negative consequences for state capacity.

Political instinct (e.g., Siamese princes and Ethiopian emperors, observing the consequences of default in neighboring countries, stayed away from debt markets), unique initial conditions (e.g., Japan had a deep *domestic* credit market), and luck (e.g., Chile, excluded from credit markets during the War of the Pacific, initiated endogenous fiscal reform) helped some countries avoid a debt trap, leading them onto a sustainable path of economic development and sound government finance.

Queralt (2022) and Mazzuca (2021) illustrate how crucial initial conditions, information, and political incentives faced by state leaders are for understanding state-building trajectories. Presidents, kings, and sultans in the Global South were no more or less public-spirited than European monarchs had been during the early stages of state development; they simply encountered a different set of opportunities and constraints. The better we understand the trade-offs generated by international economic integration for state builders, the stronger our theories will become.

4.2.3 Foreign Aid

Can the international community help build states? Existing scholarship has examined international state-building efforts following military conflicts⁹ and financial crises (Crivelli and Gupta, 2016; Fishlow, 1985), but we know little about opportunities to assist state capacity in non-crisis contexts. *Can official development assistance—commonly known as foreign aid—support local efforts to build capacity?* The literature is generally skeptical: Bräutigam and Knack (2004), Moss, Pettersson Gelandar and van de Walle (2006), and Remmer (2004) argue that foreign aid negatively impacts state capacity of recipient countries by creating fiscal relaxation and fostering corruption practices.

⁹Refer to Lee (2022) for a dedicated review of international state-building efforts in post-conflict settings.

In Queralt (2024), I examine two causes of poor aid performance: first, local leadership may not prioritize state building. They may have shorter time horizons and prefer to use aid funds to reward supporters (van de Walle, 2001). Second, even when the recipient’s leadership shares the state-building agenda, local bureaucrats may lack strong incentives to apply for valuable aid projects and implement them effectively (Ghani and Lockhart, 2009).

Because neither local leadership’s commitment to state building nor the local bureaucracy’s career incentives can be randomized, I investigate a close historical substitute—the Colonial Development & Welfare (CD&W) fund—to gain empirical leverage on both explanatory factors. The CD&W initiative was an imperial development assistance program launched by London in 1929 to grow the economy and welfare of colonies without self-governing institutions. The CD&W required colonies to submit project proposals and assume part of the project costs, which they did overwhelmingly. Analyzing originally collected CD&W fund data for 12 African colonies, I find that imperial aid grew local taxation because it brought mission-oriented career officials into the colonial leadership and offered them high-powered incentives to mobilize local taxation to match imperial funds. These findings support the importance of principal–agent issues in international efforts to build states (Berman et al., 2019; Wane, 2004) and align with practitioners’ recommendations to vet foreign leaders carefully and prioritize those with a credible agenda to use aid funds for state reform (Collier, 2007).

The state-building scholarship has been overwhelmingly focused on *domestic* causes of state development. In a context of unparalleled global economic integration, the opportunities and challenges of building state institutions in countries with low capacity and lower standing in the international hierarchy, namely the Global South, will require further consideration.

4.3 The Bureaucracy Takes Over

Thus far, I have assumed that a stronger state is better than a weaker one because it enables rulers to secure order and provide public goods; however, states can also subjugate, enslave, and expropriate.¹⁰ States emerged because some individuals, through innate ability (or perhaps a stroke of luck), were able to compel others to produce surplus, seize it, and sustain social hierarchy (Boix, 2015). Two recent books analyze the opportunities and risks that strong states represent for society: Stasavage (2020) shows that the rapid adoption of “civilization technologies” (e.g., writing, geometry, and intensive agricultural techniques) hindered early democratic practices. These technologies required state bureaucracies (e.g., surveyors, accountants, notaries), which used their power to establish a political contract based on domination. Stasavage demonstrates that high and stable agricultural productivity in the Loess Plateau (southern half of the Yellow River) allowed Chinese emperors to minimize information asymmetries with local producers, facilitating the rise of a bureaucratic state that has persisted until today.

Rulers of states that did not adopt civilization technologies early on depended on society’s willingness to cooperate. Weak rulers could not coerce the populace and thus relied on *consent* from councils and assemblies. Weak states in Western Europe “inherited democracy,” shaping expectations about what rulers could and could not do. The Weberian state in Europe built on these premises. Stasavage’s argument emphasizes the importance of *sequencing* in the adoption of civilization technologies; democratic forms of government must *precede* their adoption for state bureaucracies to remain accountable to society.

Acemoglu and Robinson (2019) depict the relationship between the state and society as an ongoing race. The state, led by a ruling coalition, seeks to compel society to act in ways it otherwise would not; meanwhile, society, organized by a set of norms and relationships, resists the state’s attempts to control it. Unlike other authors (e.g., Scott 2017), Acemoglu and Robinson argue that the “cage of norms” in the society can be just as suffocating as a

¹⁰Nathan (2023) shows that this can happen even when state capacity is minimal or “scarce”.

despotic state.

Society is expected to organize and combat attempts by the state to break the cage of norms. Whether it succeeds and what follows depends on the balance of power. If society prevails, anarchy ensues: Political order remains decentralized, and the cage of norms persists. If the state prevails, autocratic rule follows, with the autocrat’s power depending on the strength of the bureaucracy. The more developed the bureaucracy becomes, the less freedom society will enjoy. If neither side prevails, a political contract based on the recognition of state legitimacy *and* society’s consent unfolds. This equilibrium is fragile because the state and society must keep each other in check at all times. Any increase in state capacity must be balanced by a proportional increase in society’s collective capacity to hold the ruling elite accountable, and vice versa. This iterative game traces a “narrow corridor,” enabling the liberal, Weberian state to emerge.

Stasavage (2020) and Acemoglu and Robinson (2019) emphasize different aspects of the state–society relationship but share one important assumption: the bureaucracy has a comparative advantage in scaling up. As early as the 7th century CE, the imperial examination in China had created an unmatched network of state bureaucrats across the Empire (Wang and Yang, Forthcoming). Meanwhile, in Western Europe, the *nationalization* of representative councils and assemblies remained logistically challenging until transportation and communication technologies in late early modern period enabled local and regional elites to overcome collective action obstacles (Stasavage, 2011).

New civilization technologies, such as facial recognition, big data, and artificial intelligence may tilt the state–society power balance in favor of the state with unpredictable consequences.¹¹ Until recently, research on the drivers of technological adoption emphasized the importance of freedom of thought and the protection of property rights (Acemoglu, Aghion and Zilibotti, 2006; Mokyr, 2017); however, new research suggests that autocratic

¹¹Domination strategies by state elites have a long history even in the *analogical world*: Paglayan (2024) demonstrates that the expansion of mass education, beginning in the nineteenth century, was initially conceived as an instrument of social control and indoctrination.

rule may no longer clash with technological progress. Beraja, Kao, Yang and Yuchtman (2023) show that the Chinese state can simultaneously silence society and achieve significant technological advancement. “AI-tocracy” is a major deviation from the narrow corridor. It grants the state unparalleled control over society. In the years ahead, we will witness whether liberal democracy can resist this major bureaucratic impulse.

5 Conclusion

Research on state development over the past twenty years has significantly deepened our understanding of the political dilemmas surrounding state formation and state-building. This progress has been bolstered by an extraordinarily rich array of original data, including archival sources, as well as experimental and qualitative evidence. The focus has gradually shifted away from Western Europe, uncovering alternative paths to state-building and refining the scope conditions of established theories. Looking ahead, one can hope that research in the next twenty years will shed light on the consequences of civil wars, the technologies of state control, and the international opportunities that shape state development. The combination of robust research design with theoretically motivated questions will be crucial in pushing the frontier of state development research.

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