

1 Introduction

What is the relationship between democratic accountability and state capacity? Does holding leaders accountable via elections improve the quality of state bureaucracies and the ability to govern? Or do elections hinder the creation of effective civil service organizations, and instead lead to a politicized bureaucracy, pervasive corruption, and clientelism? Modern and effective states are considered to be key to human flourishing. State capacity, or a state's *infrastructural power* (Mann, 1984; Soifer, 2008), describes its ability to “penetrate its territories and logistically implement decisions” (Mann, 1984, p. 183). Capable states have been associated with order and stability, economic development, better public goods provision, lower levels of corruption, and higher degrees of perceived legitimacy.¹ Effective state bureaucracies are integral for state capacity (Evans & Rauch, 1999): they project the state's infrastructural power across its territory and serve as its key interface with the general population.

Although modern states have violent histories and coercive origins (Mann, 1986; Scott, 2017; Tilly, 1990), they are powerful organizing tools for human societies that enhance their collective problem-solving capacity. An array of pressing governance challenges – ranging from the provision of basic services like health care, education, policing, and infrastructure to addressing new and complex issues such as climate change, global pandemics, and the regulation of large technology companies or financial markets – can benefit from effective and competent state action.

At a descriptive level, indicators of human well-being strongly correlate with measures of state capacity. Figure 1 illustrates this for the relationship between state fiscal capacity and (logged) GDP per capita for 179 countries in 2015.² Fiscal capacity is a key component of infrastructural power (Mann, 1984; Soifer, 2008), which captures the state's ability to extract economic resources from the population to finance its own activities. As Figure 1 illustrates, countries that feature a strong fiscal infrastructure (such as personal income taxes and value-added tax) are, on average, much richer than those that do not. An

¹ See, for example, Bockstette, Chanda, & Putterman (2002); Evans & Rauch (1999); Pepinsky, Pierskalla, & Sacks (2017); Rauch & Evans (2000); Soifer (2008).

² I use the Varieties of Democracy (V-Dem) (Coppedge et al., 2019) measure of fiscal capacity, which asks expert coders to rate a country's fiscal capacity from 0 (“The state is not capable of raising revenue to finance itself”) to 4 (“The state primarily relies on taxes on economic transactions (such as sales taxes) and/or taxes on income, corporate profits and capital”). Expert scores are aggregated via a Bayesian item response theory measurement model, scaled to mean 0.

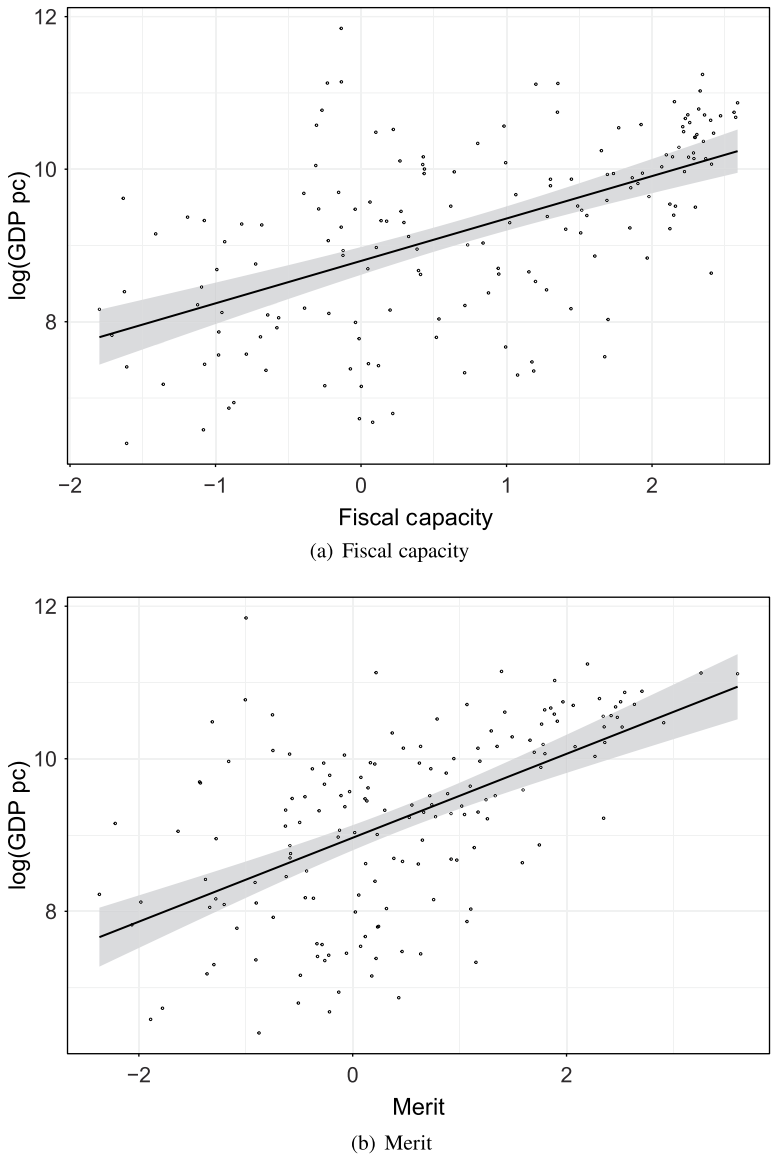


Figure 1 The relationship between state capacity and development
Note: Panel (a) displays a bivariate scatterplot between V-Dem’s fiscal capacity measure and logged GDP per capita. Panel (b) displays a bivariate scatterplot between V-Dem’s measure of meritocratic recruitment in the civil service and logged GDP per capita.

effective state apparatus – in the form of a modern, meritocratic bureaucracy – has also been considered a key contributor to infrastructural power (Mann, 1984; Soifer, 2008) since at least Weber (1978). Panel (b) of Figure 1 shows the bivariate scatterplot for the relationship between meritocratic recruitment in

the civil service and (logged) GDP per capita in 2015.³ Again, there is a strong cross-country correlation between the degree of meritocracy in a country's civil service and its level of economic development. These bivariate correlations are confirmed in more involved regression analyses.⁴ While it is difficult to determine the direction of causality of these broad patterns (see, e.g., Cornell, Knutsen, & Teorell [2020] for a skeptical perspective), many experts, scholars, and practitioners believe that commanding a capable state apparatus yields substantial benefits for human well-being.

Historically, scholars have disagreed over the exact relationship between democracy and state capacity (see Gjerløw et al. [2021] for a comprehensive and up-to-date review). Some take an optimistic view: elections make leaders responsive to voters, and voters want the state to solve problems, ergo politicians have an incentive to build better bureaucracies to fulfill their political promises. According to that perspective, modern, competent Weberian bureaucracies – insulated from excessive political meddling but responsive to elected leaders' priorities – are a perfect complement to mass democracy.⁵ Democratization thus gives political leaders an incentive to improve the performance of the state writ large, including its bureaucratic apparatus. Some empirical evidence seems to support this optimistic view of democratization, such as finding a link between democratic competition and higher-quality government or the passage of civil service reform laws that formally enshrine meritocratic principles.⁶ Descriptively, indicators of democracy and measures of state capacity correlate quite strongly. Figure 2 displays the bivariate scatterplot between V-Dem's measure of electoral democracy (*polyarchy*, ranging

³ V-Dem (Coppedge et al., 2019) also provides information on meritocratic recruitment to the civil service. Expert coders rate a country's recruitment practices from 0 ("All appointment decisions in the state administration are based on personal or political connections. None are based on skills and merit") to 4 ("None of the appointment decisions in the state administration are based on personal or political connections. All are based on skills and merit"). As with the fiscal capacity measure, expert scores are aggregated via a Bayesian item response theory measurement model, scaled to mean 0.

⁴ In Appendix A. All appendices can be found online at https://janpierskalla.files.wordpress.com/2022/09/appendix__democratization_and_the_state.pdf, I report the results of a simple exercise that explores the relationship between fiscal capacity and meritocracy in the civil service and economic development in a panel regression framework. Controlling for a variety of confounders, measures of state capacity are positively correlated with GDP per capita. The analysis includes country and year fixed effects, as well as controls for urbanization level, population size, electoral democracy, and international and domestic armed conflict. See details in Appendix A.

⁵ Stasavage (2020) points out that this complementarity between mass democracy and a strong, competent state bureaucracy is a decidedly modern pairing.

⁶ See, for example, Geddes (1994); Giovanni & Vincenzo (2015); Grundholm & Thorsen (2019); Grzymala-Busse (2007); Theriault (2003); Wang & Xu (2018).

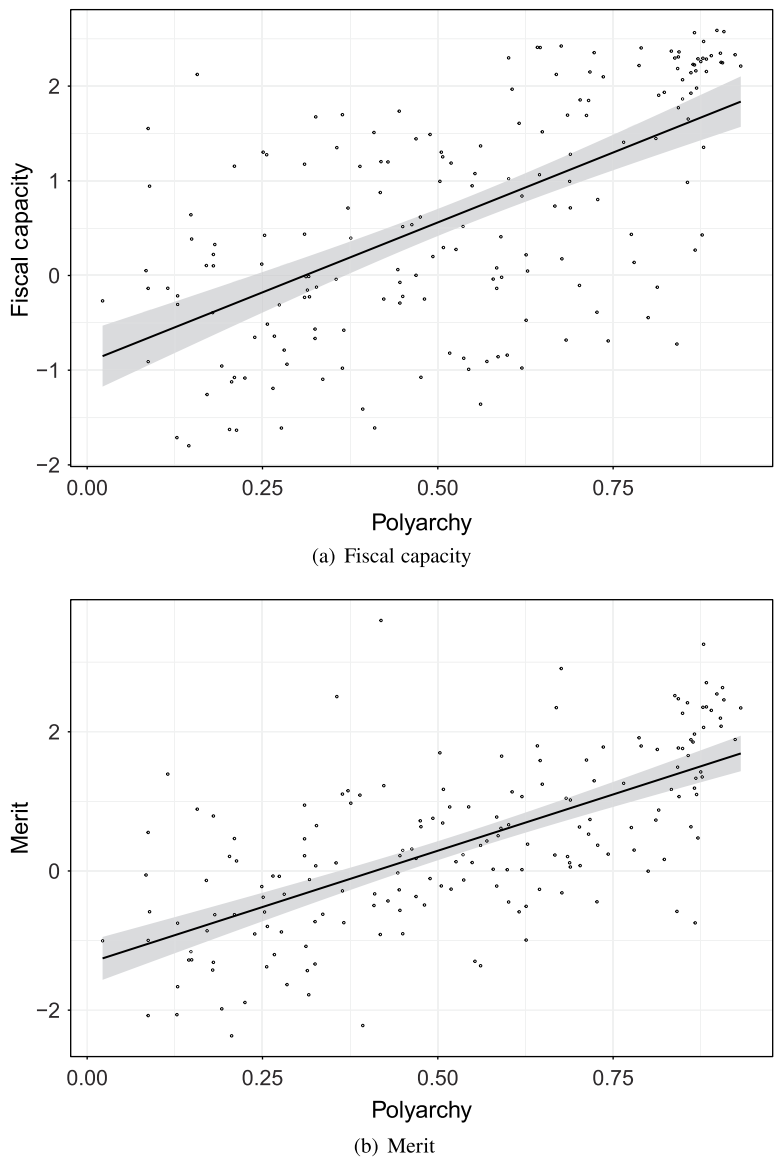


Figure 2 The relationship between democracy and state capacity
Note: Panel (a) displays a bivariate scatterplot between V-Dem’s electoral democracy measure and fiscal capacity; Panel (b) displays a bivariate scatterplot between V-Dem’s electoral democracy measure and meritocratic recruitment in the civil service.

from 0 to 1) (Coppedge et al., 2019) and the measures of fiscal capacity (Panel (a)) and meritocracy (Panel (b)).

Others have been more skeptical about whether democracy improves public sector performance. For instance, Huntington (1968) warned about the dangers

of premature democratization before states are fully consolidated. Introducing competitive elections before a strong and effective state has emerged may hinder (or even reverse) the state-building process. Politicians in democracies, facing competitive pressures, may use the state as a political resource – cannibalizing it to bestow rents on supporters and cater to particularistic interests. Elections in developing democracies might be more realistically characterized by the prevalence of clientelistic rather than programmatic politics, which forces politicians to leverage their control over the state to increase patronage hiring and wasteful expenditures to win competitive elections.⁷ From that perspective, competitive elections may sometimes weaken state capacity – specifically the state apparatus.

Understanding the relationship between democratic accountability and state-building – and which sequence of reforms maximizes the likelihood of consolidating accountable *and* effective government – is an important research puzzle. If we want democracy to deliver on governance, that is, to improve the lives of ordinary people, we need to examine the triangular relationship between citizens, rulers, and bureaucrats that determines state performance. I contend that we can make substantial headway on this puzzle by acknowledging that *people make the state*.

Often, when we think of state capacity and the emergence of effective states, this brings to mind the state's power to coerce. Enforcing the monopoly of violence is widely regarded as the defining feature of states. We may also consider the state's ability to collect taxes from (and accurate information about) citizens, that is, making the social and economic world legible in order to extract and compel. States' capacity to accomplish such tasks is borne out of a long and protracted state-building process, which is driven by violent conflict (Tilly, 1990), competition, and emulation and learning (Huang & Kang, 2022), the incremental efforts of violent elites to impose political order (Olson, 1993), bargains between rulers and powerful elite groups (Stasavage, 2020), and technological advancements (Cermeño, Enflo, & Lindvall, 2022).⁸

While these deep structural explanations of state capacity provide powerful insights into the origins of modern states and their bureaucratic apparatus, they also obscure the fact that the challenge of human resource management, that is, *how people make the state*, lies at the heart of state governance. State agents carry out the many functions that states provide; in essence, they are the vectors

⁷ See, for example, Driscoll (2017); Grzymala-Busse (2007); O'Dwyer (2004); Pierskalla & Sacks (2020); Schuster (2018).

⁸ For example, writing, Roman roads, gunpowder, the printing press, the railroad, the telegraph, and changes in agricultural technology have all drastically altered central states' ability to govern the periphery.

of state power. They work as bureaucrats and civil servants, ranging from front-line service providers to high-level officials. These individuals – embedded within a formal organizational structure – constitute the mundane machinery of abstract state power. Who these state agents are and how they are managed matters.⁹

Rulers who want to establish political order over people and territory must delegate the daily tasks of governance to these agents. To understand state capacity and power, we therefore need to examine how political leaders manage these agents. The history of state-building can be thought of as the evolving set of answers to two questions asked by aspiring political rulers: Who should I recruit to act on my behalf? How should I manage them? The answers reveal much about the state's shape, structure, operation, and relationship with its citizens.¹⁰

If we start by observing that people make the state, we can then explore how different kinds of political regimes provide incentives to address the state's human resources management challenges. Leaders use the state to do a lot of things: collect taxes, enforce laws, educate people, build roads, run the postal system, provide health care, and regulate a variety of economic sectors. Depending on the political incentives and the problems they face, some rulers also use it to spy on citizens; imprison, torture and murder, expropriate citizens; siphon money toward offshore bank accounts; and reward supporters. Political survival is a key organizing feature of the political world and shapes the principal-agent problems inherent in the state bureaucracy.

I argue that some of the disagreement over how democratization shapes the state stems from an insufficient distinction between how such a transition affects *how civil servants are managed* and how it affects *what purposes they are used for*. I argue that introducing electoral competition has a *selection-for-competence* effect in everyday civil service management practices. In many authoritarian regimes, civil servants are selected and elevated to positions of influence based on their personal connections to the dictator's inner circle and their *incompetence*, which makes them less likely to betray the ruler (a *selection-for-loyalty* effect or *cronyism*) (Egorov & Sonin, 2011; Zakharov, 2016; Zudenkova, 2015). The prevalence of cronyism makes autocratic civil

⁹ Take, for example, research by Best, Hjort, & Szakonyi (2019). Studying public procurement in Russia, they provide a high-quality, quantitative estimate of the importance of individual bureaucrat quality: they estimate that 40 percent of the variation in quality-adjusted prices paid during procurement processes is due to individual bureaucrats and their management.

¹⁰ Hassan (2020) provides a wonderful example of this kind of approach in the context of authoritarian rule. She documents the various ways in which Kenyan leaders have used decisions about hiring, posting, shuffling, and promoting civil servants to achieve regime goals.

service organizations safe for dictators. It makes them willing to use repression to squash popular opposition at the behest of leadership (Scharpf & Gläsel, 2020) and good at offering rent-seeking opportunities to a small number of insiders, but less effective at public goods provision or mass-level machine politics.

Moving from autocracy to a system with competitive elections provides incentives to abandon this narrow form of cronyism. Once political elites have to win a majority of votes in competitive elections, competent civil servants become more valuable. Skilled civil servants can be deployed to provide goods preferred by voters, including better public goods and services, but also (and more likely in a developing democracy) distribute targeted benefits at the mass level (Keefer, 2007).

This *selection-for-competence* effect of democratization does not, by itself, produce uniform effects on the *quality* of public goods provision. This is because whether politicians direct civil servants to improve the delivery of public goods or engage in machine politics is determined by the sociopolitical context in which elections take place and the extent to which there exists a trade-off between clientelism and public goods delivery. In many low-income democracies, clientelistic appeals may be more advantageous to politicians due to the prevalence of poverty (Weitz-Shapiro, 2012) and the lack of programmatic credibility (Keefer & Vlaicu, 2007). Competence can be useful for either programmatic politics or clientelism. Moreover, patronage politics can, under some circumstances, improve government performance (Jiang, 2018; Toral, 2021). Thus the increased competence in the civil service induced by democratic accountability may lead to better public goods, more effective patronage politics, or both, depending on the local electoral environment.

Electoral accountability also generates a secondary effect: an increased tendency to select competent but less *personally* loyal civil servants requires politicians to exercise more active *control* over the bureaucracy to ensure the delivery of government goods and services at electorally beneficial times. Competence often comes at the price of control. When leaders cannot rely on the intrinsic loyalty of their agents, they have to engage in costly and imperfect reward and sanctioning tools, for example, offering promotions and rent-seeking opportunities or threatening dismissals and transfers to undesirable locations or work duties. While all leaders have to develop techniques of control,¹¹ electoral accountability amplifies the challenge of control and ties it

¹¹ For example, Hassan (2020) describes how autocratic rulers in Kenya use their ability to shuffle bureaucrats across districts to manage the problem of disloyal agents. Similarly, De Juan, Krautwald, & Pierskalla (2017) study agency problems in the management of colonial police

to the electoral calendar. The high stakes of competitive elections often engender the politicization of everyday management practices in the bureaucracy, tying the career fortunes of civil servants to the political survival of elected politicians. Due to the importance of promotions in hierarchical civil service organizations for affecting bureaucratic effort (Bertrand et al., n.d.; Karachiwalla & Park, 2017), politicians will leverage their control over the timing of promotions to affect their political fortunes, inducing electoral cycles in otherwise routine civil service promotion procedures.

This second observable implication is more pronounced in environments where electoral competition is characterized by *clientelistic* appeals. Delivering particularistic goods to benefit politicians requires more ad hoc intervention in the management of bureaucrats in such contexts. Yet when electoral competition is structured by *programmatic* appeals, politicians still value the ability to exercise direct control over civil servants, but are more willing to make an institutional commitment to an autonomous Weberian-style civil service. A Weberian state combines a preference for competence with a commitment to a depoliticized management style, in essence granting increased autonomy to the civil service, limiting political leaders' ability to directly meddle in the internal processes of the state apparatus. Democratization then represents somewhat of a poisoned chalice with respect to the goal of a Weberian state – it generates a strong incentive to increase *competence*, but that same incentive also creates a need for increased political *control*.

In sum, my argument links democratization to *who* is selected for top civil service posts and *how* they are managed. It also implies important boundary conditions. Democratization will generate the hypothesized effects when transitioning from a system that heavily relied on cronyism, which does not characterize all authoritarian regimes. For example, a competitive authoritarian regime (Levitsky & Way, 2010) may have already adopted similar practices even before democratization.

Studying the relationship between regime change and the state bureaucracy is challenging for at least two reasons. First, it is difficult to determine how democratization affects the quality of the state bureaucracy due to concerns of reverse causality and confounding. For example, the level of state capacity may be driving democratization rather than the other way around. In addition, other factors, such as the level of economic development, may affect both the likelihood of adopting modern bureaucratic structures *and* democratic political

forces, identifying the trade-offs in assigning agents to locations with more or less central oversight.

institutions. Classic cross-national work typically cannot narrowly identify the causal effect of democracy on state capacity. The second challenge is that empirical work, especially cross-national studies, typically has to rely on fairly crude indicators of a state's bureaucratic characteristics that are too coarse to accurately capture the dynamics I have outlined.

To address both concerns, I test my argument using Indonesia's transition to democracy in 1999 as my case study. President Suharto's authoritarian New Order regime ruled the country for more than thirty years, relying on the support of the military, the ruling Golkar party, and the Indonesian civil service. Civil servants were tasked with (and rewarded for) executing the will of the autocratic leadership, which ranged from collecting taxes, executing laws, and providing public goods to spying on their fellow citizens, denying access to government services based on political allegiances, and facilitating rent seeking by regime insiders. The country's unexpected transition to democracy in 1999 placed electorally accountable political leaders in charge of the vast civil service, making this a relevant and instructive case.

Causal identification in this case is aided by the unexpected nature of the transition in 1999 and the additional, staggered introduction of competitive direct elections for local government offices after 2005 (Pierskalla & Sacks, 2018; Skoufias et al., 2014). This allows me to exploit the exogenous nature of the national and local roll-out of competitive elections to study their effects on the management of the Indonesian civil service.

A second advantage of using Indonesia as a case study is the rich administrative data available. I draw on the full administrative records of Indonesia's four million currently active civil servants and their career histories from 1980 to 2015, to assess how educational attainment and election cycles affected their chances of promotion before and after democratization. This allows me to investigate, at the micro level, whether the macro-institutional change in 1999 affected management *practices* in the country's civil service. While changes to formal institutions such as laws, regulations, and procedures are important, they are neither necessary nor sufficient for the actual practice of meritocracy in the civil service (Schuster, 2017). I investigate actual promotion decisions to determine the revealed preferences governing decision-making in the civil service. This approach avoids the risk of being misled by *de jure* changes that have no meaningful practical implications and are merely a form of ineffectual "institutional mimicry" (Andrews, Pritchett, & Woolcock, 2017).

I test whether democratization affected the promotion premium associated with civil servants' educational attainment – a common metric used to indicate employees' ability and skill (Card, 1999), which has been found to increase

the productivity of politicians (Martinez-Bravo, 2017) and civil servants (He & Wang, 2017).¹² I expect highly educated civil servants to advance faster and further in their careers after democratization than under autocratic rule because the electoral incentives under democratic rule favor competence. Given Indonesia's electoral environment and the prevalence of clientelism, I also expect that the increase in *selection for competence* at the expense of personal loyalty requires politicians to mitigate principal–agent problems in the management of civil servants. This should be expressed in the timing of promotions in election years under democratic – but not autocratic – rule.

I estimate the effects of educational attainment and election timing on civil servants' chances of promotion in an individual-level difference-in-differences setting. I find strong and robust evidence that the premium for educational attainment substantially increased after democratization. A civil servant with a postgraduate degree was twice as likely to be promoted under democracy as under autocratic rule. The introduction of district-level elections generated a similar pattern. Democratization pushed the Indonesian bureaucracy toward rewarding competence. Parallel to the increased premium for education, I document the emergence of electoral cycles: promotions are more strongly tied to the electoral calendar under democratic than autocratic rule. The strength of these effects varies according to the dominance of the state apparatus in the local economy, which tracks with the prevalence of clientelism in Indonesia (Aspinall & Berenschot, 2019). This is consistent with a corresponding need for political control, resulting in an increasingly politicized civil service.

In addition to analyzing individual civil servant careers, I also explore the downstream consequences of democratization in 1999 on the quality of public goods delivery, corruption, and perceptions of the state in Indonesia. My argument suggests that the *selection-for-competence* effect of democratization does not necessarily translate to improved public goods provision. Using aggregate national-level data, I show that overall public service delivery and experts' perceptions of the quality of governance have improved since 1999, but there is no strong evidence that this is due to democratization alone. At the local level, there is some empirical evidence that electoral competition has increased government expenditures as well as some indicators of the quality of the service provision, especially in regions where electoral accountability is paired with competence in the civil service. However, democratization has been linked to a worrying trend toward decentralized forms of corruption and intense politicization of the state apparatus.

¹² Education is a common proxy for quality in the literature on political candidates (Besley & Reynal-Querol, 2011; Ferraz & Finan, 2011).