Institutions, Political Settlements and the Analysis of Conflicts

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Abstract: Developing countries are vulnerable to outbreaks of violence. However, the analysis of violence and insecurity in specific cases has to be consistent with an analysis of how political stability is maintained in developing countries in 'normal' times. Many of the dominant ideas that inform the international policy debate on conflict and security are based on an ahistorical analysis of how a social order is constructed in developing countries. The policy prescriptions that emanate from these approaches, for instance as elaborated in the WDR 2011, support policies promoting 'good governance' and investments in security and in employment generation as a way of controlling violence and maintaining stability. The political settlements approach in this paper suggests that political stability in developing countries is often associated with greater levels of rule-violating behaviour as well as violence at the margins than would be normal in more advanced countries. Instability is associated with a sudden increase in violence or potential violence. Maintaining stability in these contexts requires a parallel and only occasionally overlapping set of requirements from the ones that are normally identified. Formal and informal processes have to allocate rents to meet economic and political expectations of the general population subject to the constraint of providing sufficient rents to critical organizers and constituencies to sustain the ruling coalition and a sustainable strategy for dealing with powerful organizations outside the ruling coalition. When these arrangements result in a sustainable social order we describe it as a political settlement. Political settlements defined in this way can be associated with some level of ongoing violence but they are also vulnerable to sudden increases in violence triggered by factors which disrupt the 'equilibrium'. For instance changes in the actual or perceived bargaining power of groups can result in more intense conflicts to change the distribution of benefits. When this happens, conflict can escalate and the reproducibility of the system can be threatened. In extreme cases, the ruling coalition can break down and conflict and violence can spiral to a high level till a new political settlement emerges. This approach suggests very different causes and therefore plausible responses to emerging conflicts. References to a case study of Bangladesh are used to elaborate the analytical argument.

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1. Introduction

The analysis of conflicts in developing countries can have significant implications for the types of policies and programmes that are adopted to improve security and achieve development. Developing countries are in general vulnerable to outbreaks of violence and any analysis of the specific cases where violence and insecurity crosses certain levels has to be consistent with a broader analysis of the political, economic and social dynamics of 'normal' developing countries. However, many of the dominant ideas that inform the international policy debate on conflict and security are based on an ahistorical analysis of how a social order is constructed in developing countries. These arguments have been influential because the policy prescriptions appear to be plausible and support existing policies promoting 'good governance'. The World Development Report (WDR) 2011 on *Conflict, Security and Development* (World Bank 2011) is a good example of an approach to conflict that builds on such an underlying model. It supports a policy framework for responding to conflicts in developing countries with existing policy instruments supporting the development of standard governance capabilities. I argue that this type of analysis can be misleading in many contexts because the requisite improvements in formal governance capabilities may not be achievable and so these approaches do not identify feasible responses that could actually be implemented.

Important characteristics of the 'political settlements' of developing countries are fundamentally different from those in advanced countries, and degree of enforcement of their institutions and the informality of much of their governance reflect these differences. No developing country satisfies good governance conditions as defined by a high level of capability to enforce a rule of law, property rights, low corruption, rule-following political processes or political accountability. This is because the governance capabilities to enforce these formal institutional rules are neither achievable nor immediately critical for the achievement of a stable political settlement in developing countries. In advanced countries, the achievement of these conditions is aligned with the interests of powerful organizations while in developing countries, this is not yet the case, or to a much lesser extent. The overall adherence to the enforcement of formal rules, a critical condition of 'good governance' is therefore generally weak in developing countries. The growth in instability and potentially the breakdown of the social order that happens during the escalation of social conflicts cannot therefore be explained by relatively small changes in these governance measures.

Much of the mainstream analytical work on conflict assumes that poor countries are not radically different from rich ones in the way their societies are put together, though they are obviously different in being poorer. Yet it turns out that poorer countries are statistically much more likely to have internal conflicts compared to richer ones. If analysts rule out or ignore the deeper causes for conflict that may lie in the structure of their political settlements, it is not surprising that they find the roots of conflict to lie in the effects of poverty on the cost-benefit calculations of the different participants in conflicts (Collier, et al. 2003: 53-92). In this influential work drawing on mainstream analysis, the authors argue that in the absence of economic development, 'neither good political institutions, nor ethnic and religious homogeneity, nor high military spending programmes provide significant defences against large-scale violence' (Collier, et al. 2003: 53). Grievance is less likely than greed to lead to conflicts, in Collier's analysis, but neither explains conflicts without reference to poverty. Poverty reduces the costs of organizing fighters relative to the benefits, and in the presence of political grievances

that can be mobilized along the lines of a small number of groups in a society, violent internal conflicts can become more likely. While institutions do not directly affect the probability of conflicts, the mainstream consensus argues that the institutional capabilities measured by good governance are necessary conditions for growth and development (Kauffman, et al. 1999).

I present an alternative framework for understanding how societies and social orders are put together: the framework of political settlements (Khan 1995, 2004, 2005a, 2005b, 2010, 2012b). A political settlement is a description of an institutional and organizational equilibrium that is sufficiently stable to be reproducible and which sets the institutional context in which economic and social activity takes place. The way institutions and organizations achieve an allocation of rents that maintains sufficient economic development and political stability is different from the rule-following mechanisms that are possible in advanced countries. Nevertheless, the combination of formal rules and informal modifications in developing countries is sustainable only if powerful organizations are satisfied with the distribution of rents and the allocation of rents is broadly compatible with meeting the economic viability conditions of that society.

The weak enforcement of a rule of law in developing countries is closely related to a number of interdependent governance characteristics. Different types of rule-violations take place, by bureaucrats, politicians and businesses. Not surprisingly, a weak enforcement of a rule of law and the weak enforcement of formal institutions in general, including of property rights and the formal rules of politics go together with high levels of economic and political corruption. All of these are in turn strongly correlated with the level of development. Countries that score poorly on 'good governance' therefore tend to have low levels of productive capabilities (even if they sometimes have high per capita incomes as a result of the extraction of natural resources). These correlations raise important questions and challenges for policy.

Causality in these contexts clearly runs in both directions. Low levels of development make it difficult to fight corruption and enforce formal rules, for instance because resources and incentives for enforcement are limited. At the same time, high levels of corruption, low levels of contract enforcement and the uncertainties caused by violations of electoral rules can slow down development by reducing and distorting investments, thereby making it difficult to achieve high levels of development. This means there has to be some forms of effective governance interventions even at lower levels of development. However, the effects of weak productive capabilities on the enforcement of standard governance capabilities are often underestimated. Designing effective policies requires a strategic rethinking governance strategies. In other work I have described good governance as market-enhancing governance and argued that it wrongly assumes that formal rule enforcement is achievable in developing countries. In contrast successful transitions in developing countries have actually been based on different versions of developmental governance, which involves a range of pragmatic governance interventions to accelerate development and maintain political stability in contexts where generalized rule-following behaviour has limited salience (Khan 2007, 2008, 2012a, 2012c, 2012d).

From the perspective of a political settlements analysis, the triggers that lead to violence have to do with factors that lead to a breakdown of the live-and-let-live understandings

between powerful organizations, supported by combinations of formal and informal institutions. When this happens, there can be a sudden upsurge in instability and violence. Understanding this process tells us that attempting to contain these fractures by trying to enforce formal institutions better may not be a feasible strategy, and may make matters worse by taking attention away from the critical distributive, organizational or other conflicts that drove the upsurge of violence in the first place. Section 2 outlines the contrast between the mainstream 'good governance' approaches to conflicts with the insights of the political settlements approach. Section 3 outlines the political settlements approach and some extension to deal issues of conflict and security. The extensions are applied to evaluate the security situation in contemporary Bangladesh. Section 4 discusses the policy implications and section 5 concludes.

2. Governance, conflicts and security

A useful policy-oriented exposition of the mainstream argument linking good governance to the achievement of security is presented in the WDR 2011. This argues that the combination of economic and political stresses whether weak institutions explain conflicts. It draws on a range of theoretical and statistical work that appears to support this position. The econometric work of Fearon (2010) argues that countries with above-average good governance indicators (rule of law, government effectiveness, low corruption, and the protection of human rights), adjusted for their level of per capita incomes, achieve lower risks of onset and recurrence of civil wars. Walter (2010) brings in the importance of reconciliation by arguing on the basis of statistical evidence that significant reductions in the number of political prisoners and extrajudicial killings make the renewal of civil war two to three times less likely. The conclusion is that by breaking the combination of stresses plus weak institutions, policy could work to make conflicts much less likely and to stop conflicts spiralling out of control where they have broken out. In particular, institutions that provide *security*, *justice* and *jobs* should receive priority (World Bank 2011: 8). These insights continue to inform policy because apart from a range of theoretical and empirical work underpinning these arguments, they also appear to be based on common sense.

We examine some of the basic assumptions that inform this understanding of the sources of conflict and the appropriate policy responses. At their core is the assumption that developing countries could achieve the type of social equilibrium that advanced countries have (but with a lower per capita income) if they adopt an appropriate set of institutions and policies. The problem is that developing countries appear not to be able to achieve high scores on the enforcement of formal institutions that would give them high scores on good governance. What we have is evidence that suggests that conflicts are associated with a worsening of good governance scores, but this evidence may be spurious. When political settlements are unravelling, perceptions about the degree of 'good governance' are likely to show a simultaneous deterioration. Keeping aside questions of directions of causality, this argument puts a lot of weight on small changes in good governance indicators in contexts where they were weak to begin with, to explain significant changes in security outcomes.

In general, the assumption that conflicts are more likely to happen if countries lack strong legitimate institutions for dealing with internal and external stresses must be true because it is highly plausible even before we collect any evidence. The question is if this is unachievable in developing countries, and if political stability is maintained

through other means, then looking at small changes in good governance indicators to explain stability and security outcomes may be misguided. It may be even more misguided to attempt to bring about stability and security in contexts where it has collapsed by focusing on the achievement of small improvements in these governance indicators. The underlying model in good governance arguments is that society is composed of individuals who want security and the delivery of public goods, and there is no reason why this type of state cannot be achieved in developing country contexts. If the latter assumption is true, the failure to construct a set of legitimate institutions that can deliver security and public goods increases the likelihood of conflicts. Conflicts should therefore be addressed by focusing on the construction and legitimization of institutions that can deliver good governance and security. But the critical assumption remains that a Weberian rule-following state that can protect property rights and enforce a rule of law is the most important mechanism for ensuring investments, political stability and security in every context.

Much of the case study and historical evidence on social organization and governance in developing countries supports a very different set of analytical models for understanding the 'normal' developing country. No developing country comes close to the approximation offered by a Weberian or 'good governance' model of the desirable relationship between state legitimacy and the effectiveness of its functions in moderating conflicts. Even relatively well-working developing countries have states that lack legitimacy for important sections of the population, low-level conflicts are widespread and may escalate to insurgencies in particular regions, most of these states do not have a monopoly of legitimate violence across their entire territory, and all developing country states operate with high levels of political corruption and violations of formal rules. Yet most of these states are normally not in systemic crisis and most achieve gradual development without collapsing into civil war. We need to understand why the typical developing country looks like this, and what that means for understanding the meaning of legitimacy and of strategies for avoiding and ending conflicts in these contexts.

Two systemic problems linked to the nature of political settlements in developing and emerging countries make it difficult to enforce rule-following behaviour in developing and emerging countries. First, formal rules are only likely to be effectively enforced when their enforcement is aligned with the interests of powerful organizations in the country. When is this likely? Countries become more advanced when they have a more diverse set of productive organizations in different sectors and activities. As organizations become more productive, they also become more powerful. They pay more taxes, fund political parties, employ more people and therefore begin to have a greater say in what politicians and bureaucrats do. The growing complexity of the economy also means that more and more of these organizations begin to have an interest in the enforcement of the formal rules required to conduct complex businesses and transactions. More economically developed societies therefore have a greater number and diversity of organizations that both have the incentive to want rule enforcement in general and have the power to do something about it. In contrast, the organizations that are powerful in less developed societies are fewer in number, and more importantly, less dependent on competitiveness and market transactions for their revenues. They can feasibly interact with each other in informal ways and generate rents through political connections. If the most powerful organizations in a country do not want the

enforcement of formal rules, it is unlikely that a rule of law will emerge simply through enforcement efforts from above.

Secondly, as countries become more productive and diversified, political parties can raise enough revenues through formal taxation and legal political contributions to construct their organizations and constituencies. In addition, they have to raise revenues from a great diversity of business interests and sectors and this sets a limit to special privileges that can be granted. These characteristics ensure that political parties have both the ability to be rule-following (because taxes and legal resources are substantial) and face the compulsion to follow rules (because rule-violating parties can lose significant sources of funding) and this makes them rule-following in their own interest. It is not just the quantum of revenue but also the diversity of sources that is important. When many sectors and firms are powerful, special privileges for a few will be effectively opposed by many others. This is why if a developing country has lot of tax revenue from one or two sources it does not necessarily become rule-following. More typically, in poorer countries, political parties can only raise significant revenues in informal and rule-violating ways, and when in power, the most feasible way of rewarding their supporters is to allow them to violate rules. In these contexts, it is difficult for political leaders to exercise 'political will' to enforce rules when their tenure depends on doing otherwise.

The political settlements of developing countries are therefore different because they typically involve a significant role for informal institutional arrangements and informal organizations. This takes forms such as patron-client politics and political corruption and of rule-violating behaviour by economic organizations, all of which excludes large sections of the population and limits the legitimacy of such states. Judging the viability of these states by their apparent distance from Weberian 'good governance' is therefore not useful because by that standard none of these states should be viable. Indeed some of the most viable developing country states significantly violate the conditions that are thought to be necessary for achieving legitimacy and the effective delivery of security and public goods. To the extent that economic development and diversification takes place in these contexts, the conditions are gradually created for a transition to societies that are increasingly rule-following. Our concern is with societies that are far enough away from rule-following characteristics for the achievement of these conditions not to be a feasible governance goal in the near future.
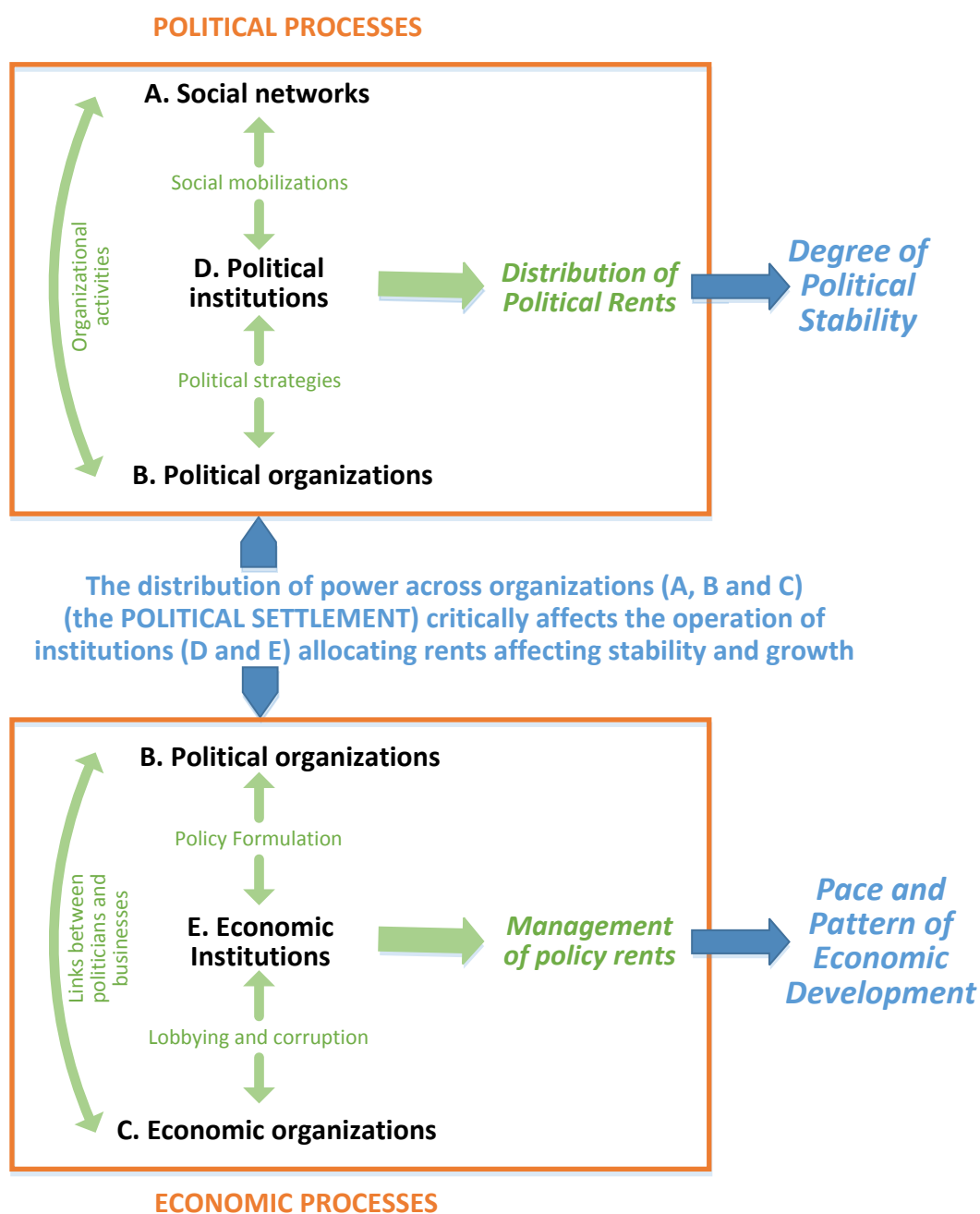
3. Political settlements: the analytical framework

The concept of a *political settlement*, defined as the distribution of power across organizations provides a framework for looking at interrelationships between institutions, policies, political stability and economic growth (Khan 1995; Khan and Jomo 2000; Khan 2010, 2012b, 2013a). Political stability depends on whether the political arrangements in a society result in a distribution of political rents that satisfy powerful organizations. Rents are income flows that are generated through political or economic policy. A necessary (though not necessarily sufficient) condition for the achievement of political stability is that the distribution of political rents to different organizations and networks is broadly in line with the distribution of organizational power. If not, powerful organizations and networks can be expected to mobilize in

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different ways to correct the imbalance and if institutional processes for correcting the imbalance do not work, the chances of disruptive and violent responses increase.

Economic development also requires institutions and policies to support the creation of new productive capabilities and to address important market failures. Economic policy interventions also create rents and potentially useful policies can fail if the rents created are not managed effectively. The allocation and management of policy-induced rents has to ensure that those who benefit from the policies deliver what is expected. Policies should have credible conditions attached to the allocation of rents and rents have to be withdrawn if results are not achieved. The failure of policy implementation is closely related to the state's capacity to manage the underlying rents. Effective policy implementation requires an effective monitoring and management of the underlying rents. Beneficiary organizations can be expected to mobilize to protect their rents, and so effective policy implementation requires a combination of technical and 'political' conditions that are specific to each policy. It is not enough for state agencies to have the appropriate technical capabilities for designing and monitoring a policy intervention. They must also have effective enforcement capabilities over the specific coalition of organizations benefiting from the rents. If the distribution of power at that level is unfavourable, the achievement of policy goals is unlikely. Thus, effective policy implementation also requires a particular type of alignment between the policy design and the distribution of power across the organizations benefiting from the policy and those charged with monitoring and enforcing it.

The political settlement describing the relative power of the relevant political and economic organizations is therefore relevant for understanding the challenges of maintaining stability and sustaining growth and development. Both depend on the allocation and management of different types of rents. In both cases, the distribution of power across particular economic and political organizations (constituting different aspects of the political settlement) is an important factor determining outcomes. Figure 1 shows the key interactions between institutions and policies on the one hand and the distribution of power across organizations on the other that together explain particular stability and development outcomes.

A. Social networks

Social mobilizations

D. Political institutions

Organizational activities

Distribution of Political Rents

Degree of Political Stability

Political strategies

B. Political organizations

The distribution of power across organizations (A, B and C) (the POLITICAL SETTLEMENT) critically affects the operation of institutions (D and E) allocating rents affecting stability and growth

B. Political organizations

Policy Formulation

Links between politicians and businesses

E. Economic Institutions

Management of policy rents

Pace and Pattern of Economic Development

Lobbying and corruption

C. Economic organizations

ECONOMIC PROCESSES

Note: Institutions and organizations can be both formal and informal.

Source: Based on Khan (2010, 2012b, 2016)

Figure 1 Political Settlements, Stability and Growth

Institutions are rules, and organizations are the agencies that operate under the rules (or engage in activities to violate or distort the rules). Institutions include formal institutions, which are rules enforced by formal state agencies, and 'informal' institutions where the rules are enforced by other informal organizations like political networks or mafias. Similarly, organizations can be formal ones like legally constituted firms or political parties whose rules of operation are in principle enforceable by law as

well as informal organizations where the group is held together by informal enforcement or self-interest, like patron-client networks and mafias (North 1990).

The 'political' and 'economic' processes of allocating rents are shown separately in Figure 1 for analytical convenience. In reality there are important overlaps between them and sometimes the types of processes can be hard to distinguish from each other. For instance, some political rent allocations can lead to economic outcomes, and even the creation of economic organizations with competitive capabilities. This can happen if political entrepreneurs who have captured rents through 'primitive accumulation' transform themselves into economic entrepreneurs by investing in productive activities and successfully acquire capabilities for competitive production. This does not happen very often but many of the biggest economic organizations in developing countries have a history of primitive accumulation behind them.

Similarly, some economic rent allocations can be so distorted by political influence that there are no effective productive conditions attached to them. In extreme cases, these rents are hard to distinguish from political rent allocations. For instance, well-connected 'businesses' may be given easy bank loans or other subsidies where the express purpose is to indirectly transfer these resources to political organizations and networks. In between these extremes, it is still useful to distinguish between political and economic rent processes. Indeed, one of the requirements of a sustainable development strategy is that political rents and the logic driving them are kept as separate as possible from the management of economic rents that are necessary to drive growth and development (Khan 2000a).

Tensions can arise between growth and stability objectives if policy-makers who want to push growth find themselves blocked by politicians and businesses benefiting from growth-reducing rents. There may then be growth-stability trade-offs if attempts to promote growth and development in particular directions result in instability as a result of the resistance of powerful groups. This is only likely to happen if the overall political settlement is stable and some political leaders understand that it is in their long-term interest to push development at the expense of upsetting some powerful interests. However, these internal growth-stability trade-offs are unlikely to materialize if the political settlement is vulnerable. The political leadership is then more likely to compromise with powerful interests and maximize their extraction of short-term rents. This is of course self-defeating in the longer term because a failure to sustain development can also be destabilizing because it can trigger mobilizations by those who believe their interests can only be furthered through a political change. A political settlement can therefore become unsustainable either because of a collapse of political stability or by an unsustainable pace or pattern of economic development.

Low levels of political stability can lead to violence that directly affects economic activities and outcomes. Even moderate levels of political uncertainty can have adverse effects on business by reducing the time horizons of investors and affecting the quality of investments. Similarly poor economic performance can drive political mobilizations to alter existing political arrangements. Thus, stability and growth in Figure 1 are not independent outcomes. Poor economic or political performance can feed into the other in a cumulative causation that can rapidly undermine a vulnerable political settlement. An adverse outcome in one is likely to worsen the outcome in the other.

Stability

Political stability is closely affected by the allocation of rents through political processes. The magnitude of these transfers matters, but conflicts are particularly likely if the distributions of rents do not match the relative power of competing political organizations and networks. Political organizations mobilize and organize constituencies and networks in society, and can also work to create identities and cleavages that sustain particular networks. Figure 1 shows that the distribution of rents is the complex outcome of the interaction between social networks, political organizations and political institutions, both formal and informal, and the allocation of rents may in turn achieve different levels of political stability (Khan 2016). The explicit and implicit rules through which political rents are allocated include the formal and informal institutions for conducting elections and engaging in political activities, and the rules through which winners of these contests allocate rents to different constituencies. Electoral rules or other rules for determining decision-making powers determine the probability that particular organizations will gain the right to allocate political resources. The winners who form the government determine the rules of resource allocation by operating or modifying the institutions and policies of political resource allocation. Both the rules of political engagement and the rules and policies for resource allocation are likely to continuously evolve. Social networks outside organized parties are also likely to mobilize to influence their incorporation into the rent allocation strategies of parties. The outcome is a distribution of political rents through formal institutions and policies like welfare programmes and informal ones ranging from targeted job creation to corruption.

Stability is unlikely if the distribution of rents (over time) do not reflect the relative distribution of organizational power across competing political organizations and networks in a country. Over the longer term, stability also requires that emerging social groups feel that existing institutions and organizations can accommodate them. If the rules of rent allocation and the rules for achieving executive authority exclude too many powerful organizations or groups, a ruling coalition is likely to require high and growing levels of repression to stay in power. A political settlement of this type can rapidly experience spikes in levels of violence that we describe as instability. Repression can keep this nascent violence at bay for a time, but a political settlement that excludes powerful groups from access to rents over sustained periods is likely to be characterized by uncertainty and the possibility of sudden political upheavals.

In developing countries, political organizations have large elements of informality. They typically bring together coalitions of informally organized patron-client networks. These networks link political organizers with social constituencies organized around identities and interests. Patron-client networks provide organizational strength to the political entrepreneurs who lead political organizations. This organizational power is in turn used to win political power (through elections or other processes) to allocate or capture rents. This then provides payoffs to clients within their own parties who provided organizational or financial support and to the broader social networks they mobilize. Political organizers and their parties can mobilize supporters around economic interests, but since economic demands are hard to deliver across the board in developing countries, political mobilizations are often based on competing social identities, symbols and ideologies. The symbols and ideologies can reflect real identities and opinions in society, but political contests are usually only indirectly about

these ideologies or identities (Khan 2000b). For instance, caste politics in India has relatively little to do with the practices and occupational specializations of different castes or even about the uplift of an entire caste. The objective of caste mobilizations is usually to help particular parties acquire political power to capture rents for which political organizers and networks within these caste mobilizations are richly rewarded.

The social, religious or cultural identities defining particular networks are useful for delimiting groups that can cohesively mobilize and benefit from political power. Identities and ideologies are also useful for restricting the capacity of individuals to switch sides. Patron-client parties spend a lot of effort maximizing ideological and identity cleavages to define 'insiders' and 'outsiders', and also to make it more difficult for their supporters to switch sides. Innovative political entrepreneurs at leadership levels are always able to switch sides in clientelist politics, but for many ordinary political foot soldiers, changing sides is more risky, particularly when ideological cleavages are deep. This is important to understand because it explains why social cleavages are long-lasting and new parties based on new configurations of identities and interests take a long time to consolidate.

Democracies are defined by particular rules for winning power. Parties compete for votes to win power and allocate rents in particular ways. The difference between advanced and developing countries is that in the former most of the rents allocated are 'formal' rents: they are subsidies and expenditures of different types that come from the fiscal budget, which in turn is largely based on the taxation of formal incomes. Formal rents are typically allocated in rule-following ways because the violation of rules can threaten the continued flow of taxes from rule-following taxpayers. In developing countries a large part of the rents allocated through political processes are 'informal'. These rents often take the form of incomes generated for supporters of political parties in ways that are not sanctioned by formal rules, for instance through political corruption. However, like formal rents, informal rents can also have a function in maintaining political stability by giving powerful organizations access to rents in contexts where formal rents are limited. In these contexts, *some* informal rent allocations may contribute to political stability (Khan 2005a; North, et al. 2013). But what matters is the allocation of rents, not just their magnitude. A *misallocation* of formal or informal rents can result in greater *instability* rather than stability. For instance, if a ruling group captures too big a share of corruption for too long relative to its perceived power, conflict can suddenly explode. Thus, the problem for stability is whether the allocation of formal and informal rents matches the perceived distribution of power across organizations and networks.

Multi-party democracy in a developing country is a particular way of organizing the competition for political rents. In contexts where political networks are fragmented along many different identities and factions, it is unlikely that all significant patron-client networks can be absorbed within a single party. Attempts at one-party rule can be destabilizing if one or more powerful organizations are likely to be systematically excluded from political rents. Multi-party democracy may be the only effective way of maintaining stability in these contexts because it gives powerful networks the expectation of getting rents in the future even if they are excluded for a while. But for democracy to be viable in these countries, the rules for conducting elections have to be credible for competing patron-client networks (Khan 2005a). Given the difficulty of enforcing formal institutions in developing countries, a credible electoral system also

requires an informal commitment by leaders of competing networks to stay within the limits of 'live and let live' arrangements for conducting elections. Unfortunately, the live and let live arrangements in Bangladesh in the 1990s were fragile and ultimately broke down, raising important questions about the prospects of political stability.

Developmental capabilities
The capacity of a state to accelerate inclusive growth through the spread of broad-based productive capabilities requires an effective management of economic policy rents. Developing countries are poor because they lack a broad base of economic organizations with the technical and organizational capabilities to engage in competitive productive activities (level C). Developing these productive organizations is a slow process and economic policies can significantly accelerate or damage the development of productive capabilities. Creating and supporting the foundations of inclusive growth is different from sustaining growth in general. Inclusive growth requires the creation of competitive capabilities in a variety of sectors and regions, as this is the best way of ensuring poverty reduction and creating opportunities for the broadest groups of people. Political organizations (B), economic organizations (C) and economic institutions (E) interact to allocate and manage rents that are critical determinants of the pace of economic development. High rates of growth based on one or two sectors or based on exports of commodities or natural resources are less developmental and much more vulnerable to shocks and reversals. *Our judgement of the developmental capabilities of a state is thus not based on a reading of growth rates achieved, but on the success of policy in developing new competitive sectors and capabilities.*

The capacity of a state to support development of this type depends on the capabilities of economic organizations, the institutional and policy framework supporting them, and the capacity of organizations to distort supportive institutions and policies. Accelerating the development of capabilities sometimes requires directly supporting investments in capabilities and at other times addressing particular market failures and infrastructure constraints. Each of these policy responses create 'rents' because some businesses or service providers gain incremental incomes that they would otherwise not have had. Failures of policy implementation are usually due to these rents being captured by organizations that fail to deliver the outcomes that were expected. For instance, subsidies to firms to adopt green technologies or subsidies to skills provision agencies to train workers can be wasted if firms or agencies have the power to claim the rents in question and not invest in the green technologies or provide high quality training. In extreme cases, the organizations benefiting from policies may have no intention of delivering the outcomes, and in other cases policy-makers may develop policies simply to deliver rents to particular organizations associated with them with no intention of implementing them properly.

Successful policy implementation can therefore be described as a process of effective rent management. For policy to deliver results, policies have to be designed in such a way that powerful organizations cannot capture policy rents and flout the conditions that should have been attached to them. Success depends on avoiding policies that require rents to be allocated to organizations that are so powerful or powerfully connected that conditions are unlikely to be credibly enforced on them. Given the configuration of power across organizations, some obvious strategies of supporting growth may not be effective while others may be, and the strategies that work in one

country may not in another. This is why the design of economic policies is likely to be much more effective if relevant characteristics of the political settlement are taken into account by policy-makers who want to promote inclusive growth (Khan 2013c).

The challenge of policy design depends on policy priorities because different economic policies raise different types of power and enforcement problems. If a business sector has few or no firms that have the technical and organizational capabilities to be competitive, policies for inclusive growth first have to promote the development of these capabilities. This can involve different types of support to induce investments in learning-by-doing and other forms of capability development. However, this support has to come with enforceable conditions so that rents supporting capability development are not captured by firms that have no intention or capacity of becoming competitive. Firms that are uncompetitive but politically powerful, perhaps because of their links with powerful political leaders or coalitions can be a problem for the enforcement of capability development policies. In political settlements where powerful coalitions of economic and political organizations exist, capability development strategies can be very difficult to implement. However, even in these contexts, capability development policies can work if they focus targeted support on less well-connected firms. In some contexts, a viable strategy could be to support medium-sized firms in new sectors where political entrepreneurs do not yet have established connections. In other contexts a solution may be policies that reward foreign technology providers with ex-post rents as prizes for developing capabilities in domestic firms (Khan 2013b, 2013c).

On the other hand, in sectors where competitive firms already exist, policies may have to address other market failures, or focus on improving infrastructure. Here businesses have a greater incentive to maintain their competitiveness as they are already engaged in profitable activities. Their concern may be to get policy-makers to deliver policies that address market failures in land, credit or other markets, and to provide infrastructure. Powerful firms may still capture rents in unproductive ways in these contexts, but a more important problem may be to persuade policy-makers to allocate resources for necessary policies. If that is the case, business has to have sufficient voice and power to ensure that the appropriate resources are provided by political leaders and policy-makers. In this context it may be important that economic organizations are powerful enough to put pressure on political leaders to deliver the required policies and to ensure results. For instance, if subsidies are being provided to training agencies for skills development, it may be useful to engage the private sector in monitoring the results and linking payments to skills agencies to the employability of the trainees they produce. In these cases, more powerful private sector firms are an advantage in enforcing conditions on rents. Thus, the distribution of organizational power necessary to drive economic development may be different in different countries, sectors and over time (Khan 2012b).

A political settlements analysis can therefore help to design economic policies that are more likely to succeed in particular contexts. In contrast, interventions in political processes to address problems of instability are more difficult because these are caused by political conflicts over rents. External policy-advice is less likely to find takers within a ruling coalition that is committed to exclude its opponents from access to rents. Nevertheless, even here a political settlements analysis can identify points of vulnerability and assess the likelihood of particular political arrangements being

sustainable or developmental. This is particularly important because countries may appear to be superficially similar, for instance in having authoritarian or one-party regimes, and yet achieve very different stability and developmental outcomes because of differences in their political settlements.

Stable versus vulnerable political settlements
Political settlements, even stable ones, are not permanent. Economic development and the mobilization of new political groups are always changing the relative power of organizations. If institutions and policies change incrementally to reflect changes in the distribution of power, dramatic political adjustments are not necessary. In these cases political settlements are 'stable' even if they are changing, because they change in incremental and evolutionary ways. The most benign way in which a political settlement can evolve is through gradual increases in the collective weight of productive organizations brought about by sustained broad-based growth. In the best case scenario, this leads to the emergence of a broad base of productive organizations, which gradually demand and have the ability to pay for the enforcement of property rights, a rule of law, and a reduction in political corruption. This is a very desirable trajectory of a transition towards rules-based 'good' governance (Khan 2012a).

Changes in political settlements and in institutions and policies come about through the 'agency' of individuals and organizations who mobilize to change things. But the structure of the political settlement can determine the chances of success of different strategies. Some policy-makers may want to accelerate economic development in the pursuit of their own interests and can push through changes even in adverse contexts by exploiting conflicting interests. As a result, new policies and institutions can change the allocation of rents in ways that go against the interests of powerful organizations. On the other hand, attempts at policy reform that trigger concerted opposition can lead to a backlash and a reinforcement of or even a retreat from pre-existing institutional arrangements. The outcome of an attempt to change policies and institutions cannot be precisely predicted. The pace and direction of evolution of a political settlement is therefore to some extent open and dependent on the strategies and mobilizations of individuals and groups. However, an existing distribution of organizational power can indicate the *likely* outcomes of these contests (Khan 2010).

Incremental evolution of this type is unlikely when significant imbalances open up between the distribution of rents and the distribution of organizational power in a society. When this happens, political settlements become 'vulnerable' in the sense that adjustments are likely to happen in *discontinuous* ways. Discontinuous adjustments can range from crisis-driven and contested changes of government to revolutions and civil wars. They typically involve spikes of violence or uncertainty that are rare when changes are incremental in a stable political settlement. However, vulnerability does not tell us how or when a discontinuous change will happen. Mobilizing in repressive contexts is risky, and potentially powerful organizations may lie dormant because they do not want to test the repressive capacity of a ruling coalition. The timing of discontinuous political change is therefore indeterminate, depending on the strategies and capabilities of leaders, and on exogenous shocks or accidents that create organizational opportunities. Political economy cannot predict these moments of change. However, analysis can try to assess the degree of vulnerability, and the likelihood of discontinuous changes. The political settlement in Bangladesh is opening

up to this type of vulnerability and the path to that position will be discussed in subsequent sections.

A political settlement can become vulnerable if one of several types of imbalances begin to emerge. The first imbalance is the emergence of a significant gap between the nascent organizational capabilities of important *social networks* and groups (level A in Figure 1) and their representation in *political parties* (level B). This is because the access to rents for social networks and constituencies is through political parties and organizations. If the organizations that represent and deliver to particular networks suddenly become weak or disappear, a potentially destabilizing disruption in rents follows. As political parties in clientelist contexts mobilize along lines of social identity, the exclusion of important social identities from access to political organizations is likely to be persistent and destabilizing. Excluded groups and networks are eventually likely to seek more effective strategies for representation and if this continues to be blocked, they are likely to turn to more violent mobilization strategies. This is a potentially important problem in contemporary Bangladesh for reasons that will be discussed later.

A second potential imbalance is between the distribution of organizational power across *political parties* (level B) and the distribution of *rents* they can achieve, given the formal and informal political institutions and policies creating and allocating rents (level D in Figure 1). If powerful political parties are systematically excluded from a proportionate share of rents because political institutions have been designed and enforced by the ruling coalition to disadvantage their access to power, political stability is again likely to be low.

Finally, economic development through the management of policy rents can either create a more diversified and powerful set of economic organizations (C) that gradually challenge the institutions (D and E) distributing rents informally. This is typically the trajectory through which more formal institutions gradually begin to emerge, and in some cases the transition can be discontinuous and conflictual. More pessimistically, low levels of development can lead to economic hardships for some social constituencies (A) that lead to political mobilization opportunities for new political organizations (B) and challenges to the distribution of rents by existing institutions.

These and other types of imbalances can be important in particular contexts and they point to different types of problems. In contemporary Bangladesh, the second imbalance was responsible for a great deal of violence around the disputed 2014 elections, but the first imbalance is likely to prove a more serious challenge in the years ahead. The second imbalance emerged because the ruling coalition changed the institutional rules for elections and political activities in ways that disadvantaged the opposition. This implicitly changed the distribution of rents because it significantly reduced the chances of the opposition coming back to power through elections. The result was a strong mobilization by the opposition to change these institutional rules. They boycotted the elections hoping to continue their protests for a new election. A resolution would have been a change in the institutional rules of elections. By raising the probability of the opposition winning the next election, the long-term distribution of rents would have been brought back into line with the distribution of organizational power. However, the opposition failed in its attempts after the uncontested election because the ruling coalition was able to mobilize sufficient repression and counter-

mobilizations. The result of this defeat for the opposition was a gradual collapse in its organizational capabilities after 2014. It was starved of the rents required to maintain its organizations and it continued to face high levels of repression.

If we focus only on the second imbalance, vulnerability appears to have actually declined after the 2014 elections. The collapse in the organizational capabilities of the opposition as a result of its defeat on the streets appeared to bring the distribution of rents into alignment with a readjusted distribution of organizational power. This may have been a sustainable shift in the distribution of organizational power if the underlying networks and identities that the opposition mobilized could either be accommodated by the ruling party or destroyed or weakened through appropriate policy and institutional interventions. However, the historical evidence suggests that neither strategy has worked in the past. Nor are there are any reasons to believe that the underlying social reality has changed. Indeed all the indications are that the cleavages and antagonisms in society are getting stronger as a result of this exclusion. If the opposition parties that represented these groups fail to recover, a more dangerous type of vulnerability may open up.

The current situation in Bangladesh shows some evidence of being a disequilibrium of this type. The restrictions on the activities and finances of the opposition and arrests and disappearances of leaders have resulted in a steep decline in organized political protests after 2014. However, the lull in political activities gives a false impression of stability because while the opposition party has been weakened, the underlying social networks and constituencies remain excluded. The problem is that it is difficult to predict when and on what pretext a new mobilization will emerge, or who may attempt to lead such an organization given the climate of restrictions on formal opposition activities. Any planning in this context is likely to be hidden from view. To make matters worse, extremist organizations have an advantage in acting in the name of excluded groups because open organizations face repression. A spiral into violence has often begun in this way in many countries, and there are some early but worrying signs of such processes beginning in Bangladesh. Extremist groups have spotted an opportunity and have stepped up their activities. We have no evidence of how successfully they may recruit from the excluded networks over time, but they have to be only very marginally successful to create significant instability in the years ahead.

Finally, a stable political settlement should not be confused with the complete absence of social conflicts and even occasional violence. The most stable political settlements can have ongoing conflicts over distributive shares, for instance over wages, or between different geographical regions. If policies and institutions adapt to these demands, the result is an evolutionary and incremental set of changes in the distribution of power without discontinuous ruptures. Nor is the absence of conflict a precondition for achieving developmental outcomes. Many high-growth societies like China or South Korea grew through processes of ongoing internal conflicts, but these did not spiral out of control because improvements in productivity and incomes and incremental changes in institutions sustained the legitimacy and strength of the dominant organizations. These political settlements were therefore fundamentally stable in the sense described.

In contrast, a vulnerable political settlement may have no apparent conflict for a time if dominant political organizations have destroyed or suppressed all others. But such configurations are subject to sudden explosive upheavals when repressed social

interests finally break loose. Vulnerable political settlements are also likely to have poor development outcomes over time because the enforcement of developmental institutions is difficult in contexts of repression where the ruling coalition loses legitimacy. Stable and repressive dictatorships with low growth like Syria or North Korea are examples. The relevant question therefore is not whether there is any conflict in a society, but the more difficult one of assessing the sources of conflict, and the consequences for development. This allows us to frame some of the questions facing contemporary Bangladesh: do the conflicts here challenge the sustainability of the distribution of power or are they only conflicts over distributive shares and policy details within an otherwise stable and sustainable political settlement?

We use the political settlements framework to classify different phases in the political economy of Bangladesh and the characteristics of growth and stability in each of these phases. The phases are not just of historical interest. They help to reveal important characteristics of the evolving social and political organization of Bangladesh and how this has mattered for growth and political conflicts. This understanding is important for assessing the viability and developmental implications of the most recent variant of the political settlement.

4. Five phases of the political settlement and international comparisons

Bangladesh has witnessed a number of discontinuous changes in its political settlement. A discontinuous change is not simply a change of government but a significant change in the distribution of organizational power and of associated rent allocations, usually achieved through processes that involve violence. However, not all changes of government that involve some violence result in noticeable changes in the distribution of power, and these do not count as discontinuous changes in the political settlement. For instance, there were regular changes of government in Bangladesh in the 1990s through elections that sometimes involved violence, but these did not change the distribution of power or the long-term expectations of rents of the major parties.

This section summarizes features of five phases of the political settlement in Bangladesh, each marked by discontinuous breaks with previous phases. The subsequent sections then discuss these phases in greater detail. Taken together, the patterns of evolution tell us something about the deeper structures of social and political organization in Bangladesh. Their relevance today is that they help us to evaluate the prospects of the current post-2008 political settlement and to assess its sustainability over the longer run. Figure 2 summarizes the characteristics of each phase in terms of their stability and developmental characteristics.
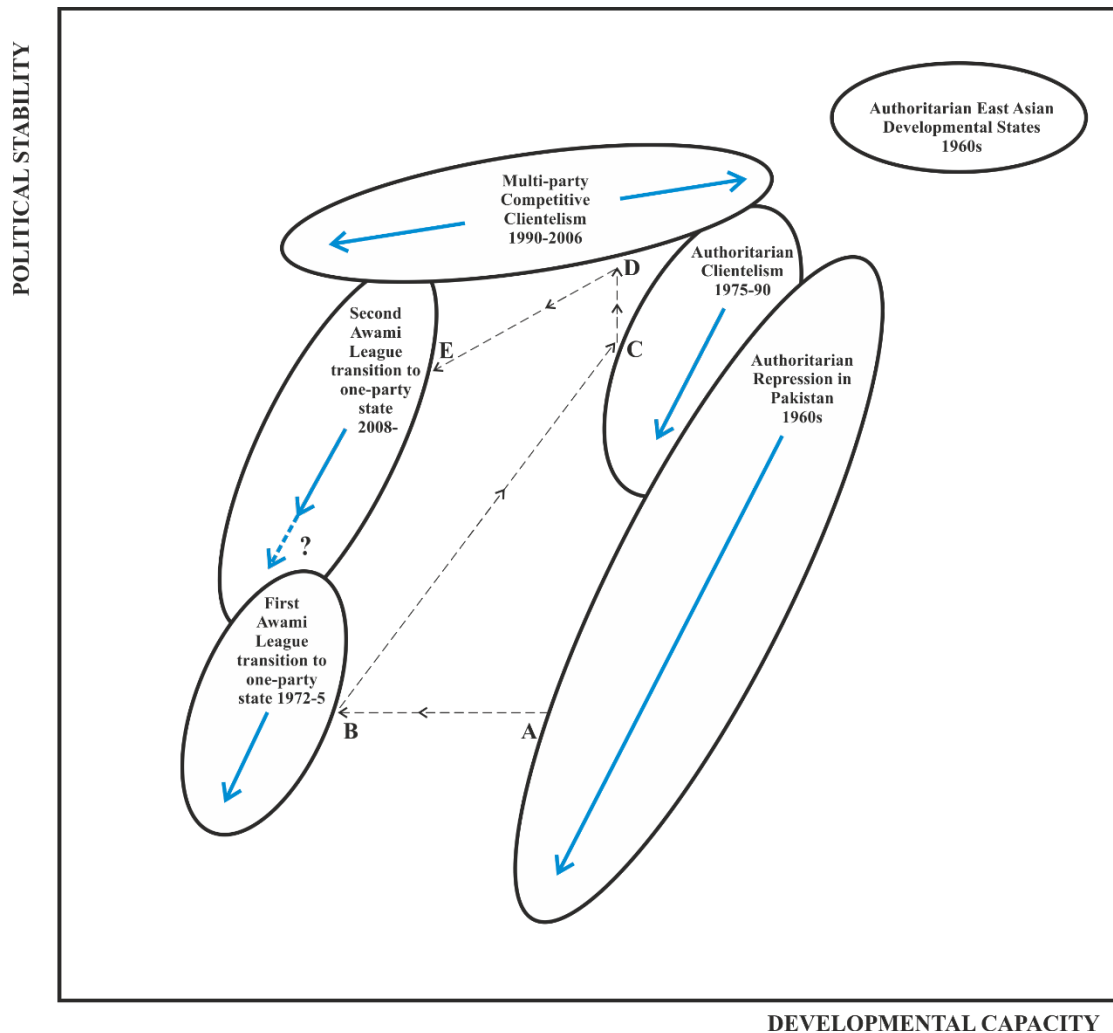
Note: Positions of different phases are indicative and not to scale
Source: Author

Figure 2 Phases in the evolution of the political settlement in Bangladesh

Authoritarian development in Pakistan

The first of our five phases covers the period from 1958 to 1971 when Bangladesh was still part of Pakistan and an authoritarian military regime was in power. Many features of this authoritarian state were similar to that of contemporary South Korea. Both countries had governments led by military leaders who attempted to create new capabilities in industry while managing and restricting political rent demands from above. However, while South Korea managed to sustain high rates of development and high levels of stability over decades, Pakistan did not. Pakistan's industrial policy was initially very developmental as new sectors and industries rapidly developed, but political stability collapsed equally rapidly. Developmental capabilities also began to collapse with declining state legitimacy. It had little capacity to discipline businesses in a context where its own survival required patron-client deals with powerful emerging factions and political entrepreneurs. This political settlement suffered a violent adjustment in 1971 when Bangladesh was born. While the economic and political institutions of Pakistan and South Korea appeared to be similar, the underlying distribution of organizational power was significantly different and made these institutions and policies unviable in Pakistan. The exclusion of significant segments of

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social networks eventually resulted in an explosion in both wings of Pakistan and the separation of East Pakistan as Bangladesh.

Awami League and the transition to a one-party state

The second phase from 1971 to 1975 was led by the Awami League, the party that had campaigned for Bengali rights and later independence under the charismatic leadership of Sheikh Mujibur Rahman. Despite his popularity, his rule mutated into a one-party state and ended with his assassination by disgruntled junior army officers. The period was chaotic in both economic and political terms partly because of the destruction of the war. But more importantly, emergent political networks that had been deprived of access to political rents in Pakistan now had expectations that required to be institutionalized and managed. Instead, the competition for rents went out of control and the response was first repression by the ruling party and when this did not work, an attempt to create a one-party state and the banning of opposition political activities. This attempt destroyed the legitimacy of the party to an extent that its enemies could plot its violent overthrow with the expectation that they would survive the assassination of Mujib. Political stability was low to begin with and steadily declined. The state's capacity to manage developmental rents was weak and declined over time. The departure of West Pakistani capitalists resulted in a temporary drain of organizational capabilities in the economy. The regime's response was to nationalize abandoned assets, in line with it ideology of socialism. However, the planning process failed to ensure productive outcomes as it could not control accelerated political rent capture. Not only were no new capabilities created, Bengali entrepreneurial capabilities still remaining were further undermined when the assets of Bengali entrepreneurs were also expropriated in the name of socialism.

5.3.3 Authoritarian Clientelism and a return to multi-party politics

The third phase from 1975 to 1990 saw a managed return to multi-party politics with rents controlled from the centre but with opportunities for competing parties to enter the ruling coalition. The gradual opening up of access to political rents resulted in an improvement in stability at the civilian political level, even though the early part of this period was marked by repeated coup attempts within the armed forces. On the economic front there was a substantial improvement in developmental capabilities. The centralized control over rents allowed political rent allocations to be separated from economic ones. This opened up the space for investments in firm-level capability developments. We rank the developmental capabilities of the state as high during this period because it succeeded in laying the foundations of the garments sector that has driven inclusive growth in Bangladesh since then. No other similar sector has emerged in subsequent phases of the political settlement even though growth rates have been higher later as growth in the garments and other sectors accelerated through imitation and replication. The phase included two very different Presidents. President Zia who ruled from 1977 to 1981 was a popular war hero. He was killed in 1981 by dissidents within the army. His successor Ershad did not fundamentally change the configuration of power but he was far less popular and faced increasing mobilizations against his rule. Political uncertainty during his rule led to declining private investments and a growth slowdown. His overthrow in 1990 after months of mass demonstrations brought about a significant change in the distribution of power and rents.

Multi-party democracy and competitive clientelism

The fourth phase from 1990 to 2006 was the most promising period for the institutionalization of democracy in Bangladesh. A system of multi-party competitive democracy emerged, driven by the competition between two large clientelist parties, the Awami League and the BNP. This 'competitive clientelism' as we describe it had one significant achievement. It created stable expectations of a fair chance of accessing political rents for competing political organizations and the social networks they mobilized. This in turn resulted in political stability that had a positive feedback effect on investment horizons and business confidence. Even though governments over this period did not demonstrate significant developmental capabilities in developing new competitive sectors, there were continuous improvements in the growth rate as investments in existing competitive sectors like garments increased, with backward and forward linkages developing. The democratic phase came to an end in 2006 as a result of a failure by the two major parties to institutionalize credible electoral rules. There followed a two-year interregnum of a military-backed Emergency, which we do not characterize as a separate phase in the political settlement as it was very short-lived.

Transition to one-party dominance under Awami League

This brings us to the fifth and current phase from 2008 onwards. The period began with the election of the Awami League after the end of the Emergency but rapidly evolved into a quite different configuration of power and rents compared to the competitive clientelist period. The ruling Awami League decisively changed electoral rules in ways that the opposition BNP perceived would deprive it of a fair chance of winning elections. As opposition mobilizations increased, the ruling party began to curtail organizational freedoms. After the uncontested 2014 elections, a second version of a dominant party state under the Awami League has emerged and it is this that contemporary political economy has to assess. The Awami League's strategies successfully weakened the organizational capabilities of the opposition but the social networks that had driven the emergence of competitive clientelism did not disappear. The history of political mobilizations in the country suggests that restrictions on organizational rights may yield a period of quiescence but have always resulted in violent discontinuities in the political settlement.

The developmental capabilities of the new state are arguably lower than in the previous competitive clientelist phase even though growth rates remain high. The management of economic policy rents is at least as poor as before and may be worsening in some respects. Economic diversification has not improved while political uncertainty has resulted in a slowdown in private investments and an increase in illicit capital outflows from the country. Large scale banking scams have not elicited credible responses from government, suggesting the involvement of significant political interests in the distortion of economic institutions and policy. The most serious concern is the uncertainty about political arrangements and the likely response of social networks excluded by the ruling party as legal opposition parties find their organizations collapsing and Islamist groups attempt to enter their space. The evidence of a feedback of political uncertainty on investor confidence further increases the vulnerability of this political settlement.

Comparison with Malaysia

A superficial comparison of institutional and political strategies across countries can lead to misleading conclusions if we ignore differences in their political settlements. Malaysia under Mahathir is often referred to in Bangladesh as a model that demonstrates that a dominant party system can achieve 'development first and democratization later'. The reference is to the dominant role of UMNO, the United Malays National Organization in Malaysian politics since 1969 and the very rapid development that Malaysia achieved after its dominance was established. The problem with this comparison is that the political settlement in Malaysia in the three decades after 1970 was substantially different from that of contemporary Bangladesh. Malaysian political institutions reflected and were aligned with the underlying distribution of organizational power in country (Khan 2000a). As a result, the allocation of political rents through its political institutions and rent allocation policies achieved high levels of political stability over two decades.

Political mobilizations in Malaysia in the late 1960s happened primarily along ethnic lines. In 1969 when race riots broke out, the country came close to ethnic conflict that could have destabilized its economic development for a long time. The majority Malays were around half the population and the ethnic Chinese around a quarter, with ethnic Indians and others making up the rest. Tensions ran high between the commercially more advanced Chinese and the politically dominant Malays who demanded corrective action to redress what they saw as their history of exclusion by colonial powers. Facing a potential conflagration, the parties representing the three main ethnic groups, led by UMNO, came together in a National Front, the Barisan National.

The important point about this coming together was that the Barisan did not just represent the Malays. It included the Malay UMNO, the Malaysian Chinese Association (MCA), the Malaysian Indian Association (MIC) and a number of other parties. Stability was achieved because the organizations of the major ethnic constituencies realized that to avoid a catastrophic conflict they would have to agree to an appropriate distribution of rents through the Barisan. This institutional distribution implicitly reflected the relative organizational power of the parties and their ethnic constituencies *and* recognized that the economic backwardness of the Malays would have to be addressed through political rent allocations. A bigger share of political rents would therefore have to be allocated to the 'bumiputras' through appropriate policies and institutions to maintain political stability. The Chinese were not happy with this but they recognized that it was a necessary price for maintaining the social harmony that was in their own interest. The major parties within Barisan collectively bargained over political rent allocations to reach institutional and policy compromises for achieving political stability.

The dominant party system in Malaysia was stable precisely because the rules of rent allocation were aligned both with the distribution of organizational power in the existing party structure and with the deeper distribution of nascent organizational power in the identities and interests that the parties represented. More recently the growing complexity of the country has put these arrangements under stress, but we are referring to the first three decades of the political settlement that emerged in 1969. The attempts to construct dominant party systems in Bangladesh in 1975 and after 2008 have been very different. The prior distribution of organizational power was not recognized, and

the dominant party attempted to secure itself by using institutional changes and exclusionary tactics to change the distribution of organizational power. These attempts were not successful in 1975 and are not very likely to succeed in the future because the excluded social networks and identities reflect social networks and identities that the ruling party is unlikely to be able to accommodate, even if it wanted to.

The political organization of Malaysia under Barisan allowed the effective management of some types of economic rents and this in turn allowed rapid economic development and diversification. These developmental outcomes further stabilized the political settlement and the country achieved sustained growth over three decades. The political stability that Malaysia achieved in 1969 made it an attractive country for FDI in the 1970s and Malaysian policy-makers exploited this by providing policy support for high-technology investors in the country. Targeted infrastructure, special tax deals and other hidden subsidies provided rents to attract FDI investors who brought in technologies in electronics and other desirable sectors. The government also created incentives for backward linkages to Malaysian companies (Kwame Sundaram Jomo 1986: 254-6; K.S. Jomo and Edwards 1993). These rents had to be managed to prevent capture and the Malaysian government was able to do this. The direct beneficiaries of the rents were mainly foreign firms who found it hard to make alliances with local political factions or parties to capture these rents without delivering results. The mainly Malay political leadership had achieved sufficient political rents through the Barisan's bumiputra policy to keep their core organizational activists and constituents satisfied. Economic rents going primarily to the FDI investors and their domestic linkages could therefore be ring-fenced, and attempts by local political players to capture or distort these rents could be effectively resisted by political leaders who understood that long-term economic development was in their interest (Khan 2007).

Comparison with South Korea
Just as the Barisan National in Malaysia offers an interesting contrast and comparison with the Awami League as a dominant party, South Korea provides another insightful comparison with the authoritarian developmental model in Pakistan in the 1960s. Many developmental policies and institutions in Pakistan at that time had similarities with those in South Korea. Indeed, South Korea sent bureaucrats and planners to Pakistan in the early sixties to learn about development planning. Economic policies in both countries attempted to develop industrial capabilities by focusing rents on a small number of business houses engaged in import substitution and export promotion. In addition, the political arrangements appeared similar because military-bureaucratic elites in both countries monopolized political power, limiting access to political rents to political actors and organizations that were willing to work within their rules.

Thus, there were superficial similarities in their institutional and policy structures in terms of formal arrangements, and both were relatively long-lasting regimes. In Pakistan, the political settlement lasted more than a decade, from Ayub's coup of 1958 till 1971. However, as Figure 2 suggests, both political stability and developmental capabilities declined steeply over this period. It ended with a rupture that destroyed the country. In South Korea, the broad features of the political settlement persisted from Park's coup till 1987 when there was a democratic transition. There was no collapse in developmental capabilities over this period, and though there were political conflicts, political stability was relatively high and the eventual democratic transition relatively smooth.

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The development outcomes in the two countries were staggeringly different. Pakistan's rapid growth in the early 1960s petered out in the late 1960s while South Korea sustained its development and economic diversification to become an OECD country in 1996. Differences in the distribution of power across organizations and networks in the two countries, in other words their political settlements, play an important part in explaining these huge differences in outcomes. Pakistan's political settlement was very different because it inherited from its British colonial history a much more powerful and diverse set of social networks organized by intermediate class political entrepreneurs. Colonial history had legitimized a political landscape where political entrepreneurs could mobilize social groups along various identities and interests to negotiate political rents and upward mobility for these organizations and networks. Relative to the organizations that were attempting to monopolize power, the army and the bureaucracy, political parties and the informal networks they mobilized were collectively substantially powerful. This remained true even when the political parties through which they organized had their activities restricted.

In contrast, in South Korea, Japanese colonial history left no such legacy. The mobilization of informal networks by political entrepreneurs was not allowed to develop as a form of legitimate social organization (Kohli 1994; Khan 2000a). As a result, both political parties and social networks were far less powerful. Once we understand the significant differences in the organization of interests and networks in society and their mobilization in patron-client political organizations in the two countries, it becomes possible to explain why apparently similar political strategies proved to be stable in South Korea but vulnerable from the very outset in Pakistan.

In essence, the configuration of powerful political networks made a top down allocation of significant rents to large business houses difficult to police in Pakistan. Businesses receiving policy rents could find many powerful factions and political entrepreneurs to protect their rents from being withdrawn regardless of their performance. In contrast, in South Korea the disciplining of these rents became increasingly more effective. Policy-makers learnt the benefits of making rents conditional on export performance, unconstrained by the ability of businesses to protect their rents by making alliances with powerful political factions. Targeted subsidies in the form of subsidized credit, export subsidies and import protection could be linked in South Korea to performance indicators, and failure would result in the withdrawal of support from particular chaebols (business conglomerates). Not only could support be withdrawn, the state soon discovered that it could also restructure non-performing plants by transferring their assets to more effective entrepreneurs in other chaebol. The chaebol losing out discovered that they were unable to organize resistance to these interventions. Lower level politicians and informal organizations did not have sufficient independent power to be able to protect chaebol about to be restructured.

Higher-level South Korean policy-makers therefore had no reason to support less efficient entrepreneurs. More efficient entrepreneurs could not only deliver the benefits of higher growth, they were also able to offer bigger payoffs in the form of more taxes and kickbacks over time. In Pakistan the rent capture was necessarily more fragmented with different business houses making deals with particular political entrepreneurs. With a large number of political entrepreneurs competing for a share of the rents, inefficient businesses could easily make alliances with particular political organizers to

protect their rents. The capacity to effectively implement top-down industrial policy was therefore very different in the two countries.

In politics, Ayub's attempt to operate a managed democracy with the indirect election of the President in his Basic Democracy system came under growing challenge by the mid-1960s. By then excluded social networks had mobilized informally and were beginning to challenge the restrictions on party political activities. In contrast, Park discovered that fixing and controlling elections did not result in sustained mobilizations of excluded groups because the latter were weakly organized and could be effectively managed using a centralized distribution of rents. He travelled in the opposite direction, doing away with elections altogether in 1972 in the so-called Yushin Constitution and democracy did not return to South Korea till 1987 (You 2013).

6. Implications for the Analysis of Conflicts

It follows from the discussion above that the Weberian benchmark of a rule-following and law enforcing state as the benchmark of legitimacy is a non-starter for assessing the viability of a state in a developing country. Indeed, a state that primarily attempted the enforcement of formal institutions would be politically unviable in the typical developing country context and would not be legitimate from the perspective of the powerful groups and organizations that play a dominant role in the political process. The political settlement approach allows us to examine the real differences in the formal, informal institutional and organizational structures of developing countries. This in turn can provide a better insight into the real differences in the economic and political dynamics of different developing countries and why conflict cascades into worsening spirals in some cases but not others.

For developing countries in conflict, the analysis of political settlements provides an alternative identification of the factors that lead to an eruption of conflict beyond the normal tolerance limits of that society. This analysis therefore also suggests a different set of processes through which conflicts are likely to end. The political settlements in developing countries typically involve higher levels of conflict as part of the institutional-organizational equilibrium compared to advanced countries. Many developing countries have ongoing violent conflicts in specific regions or have outbreaks of violence associated with elections, fighting organized crime (which is often informally linked with political organizations) or in the competition between political organizations. As power is exercised in informal ways, it is typically more difficult to enforce rules that can prevent political confrontations from occasionally becoming violent. However, as long as the political settlement holds, the conflicts associated with political competition are by definition not intense enough to result in broader mobilizations that can lead to a fundamental change in the overall balance between institutions and organizations.

Organizations engage in conflicts to establish their holding power through demonstrations of their ability to engage in conflicts. Thus, the violence and conflicts associated with the 'normal' reproduction of the political settlement do not normally represent a crisis even if these conflicts appear to be intense from an advanced country perspective. However, the violence and conflict can spiral out of control if an existing equilibrium is suddenly disrupted. For instance, if a ruling coalition brings about institutional changes that change the ability of opposition coalitions to organize or

demonstrate their organizational power, or if an exogenous change is brought about in the relative power of organizations or in the construction of networks in the broader society, the result may be a breakdown in the reproducible equilibrium between institutions and organizations that a political settlement represents. Once this happens, conflict and violence can spiral as new mobilizations are triggered both to re-establish the political settlement and to change it. Moreover, in contexts where social networks remain intact but organizations representing them are dismantled or disempowered, as has happened in Bangladesh after 2014, the chances are that new underground organizations will emerge drawing on the support base that exists but relying on more violent tactics of seeking to disrupt the rents of the ruling coalition.

However, there is no guarantee that a new political settlement will emerge rapidly, because the response of ruling coalitions may be to use repression to re-establish 'security'. Unfortunately this is also in line with the recommendations of the good governance security approach because violations of rules by the opposition can be seen as a challenge to the rule of law and to the enforcement capabilities of the state. This prescription can be particularly dangerous in a context where the legitimacy of the state is not based on the enforcement of formal rules but on the balance of formal and informal rules that resulted in a stabilizing distribution of rents. If this distribution is upset because of the actions of one coalition, the response of others cannot be adequately dealt with using repression and the imposition of a 'rule of law'. This is an example of a situation where misguided external support for a security response to what appears to be a challenge to the ability of a state to enforce formal rules can have consequences that are unintentionally damaging. The result may be to force even more organizations underground and in some countries, into the hands of international Islamist networks.

This perspective contrasts with the benchmark of a legitimate state in the 'good governance' analysis. In the latter analysis, if the state is legitimate and delivers public goods efficiently, conflict is avoided. The political settlement approach explains why the legitimacy of the state in developing countries is typically not based only or even mainly on the delivery of public goods, including a rule of law, to the general population. Rather, the legitimacy and stability of the state depends on providing enough for the economic and political expectations of the general population subject to the very important constraint of providing significant informal rents to critical organizers and constituencies which define the ruling coalition *and* enough rents or a sufficient probability of winning power to currently excluded organizations, in line with their own perceptions of their relative power. Given the difficulty of achieving this fully, developing countries are likely to have significantly higher 'normal' levels of conflict compared to advanced countries. As long as the political settlement holds, their internal social arrangements can reproduce themselves despite these levels of conflict.

A variety of factors can result in the reproducibility of the system being threatened. Incremental institutional changes are always happening as are gradual changes in the relative power of organizations as a result of economic developments and new organizational initiatives of organizations. Groups that were previously unorganized can also begin to mobilize through autonomous processes or because economic development changes their ability to mobilize and organize. These types of changes can affect the political consequences of maintaining the current institutional-organizational equilibrium if the distribution of benefits across organizations is inconsistent with new

perceptions of relative power. The sequence of events triggering a crisis may be different in different cases but the general feature of a breakdown of a political settlement is that it is no longer reproducible without a significant increase in violence, or repression or both.

In some cases the trigger may be declining economic outcomes. This can create pressures for new groups to mobilize, protest and organize in different ways, creating opportunities for already existing organizations that were in a disadvantaged position in the old political settlement to form new coalitions to enhance their bargaining power. Relative power is likely to be initially tested through confrontations ranging from elections to street protests but if the dominant organizations refuse to accept that a change in relative power has actually taken place, the outcome may be an escalation of the confrontation to violent forms. The result could be a sudden increase in contestation and violence, precipitating further declines in economic outcomes and perhaps more mobilizations and conflicts. Another path to a breakdown may be that the growth of the economy and autonomous changes in the organizational power of different groups result in disadvantaged organizations believing that their relative power has changed sufficiently to demand corresponding changes in the institutional structure that are advantageous to them. If the ruling coalition blocks these demands because they challenge or contest these claims, the result can be more intense conflicts as disadvantaged organizations attempt to demonstrate their relative power. Finally, the ruling coalition itself may change institutional arrangements to block excluded groups, believing the latter can be repressed, resulting in contests to establish true relative power. In some cases if repression drives some networks underground, the result could be protracted conflicts. These routes to breakdown and to a significant increase in instability and conflict are by no means exhaustive of the possibilities.

Whatever the precise sequence in a particular case, the breakdown of a political settlement happens when the distribution of political rents are no longer aligned with the expectations of powerful organizations, or of underlying social networks if organizations have been destroyed, based on their assessments of their relative social power. As game theory tells us, conflicts are a way of revealing relative power when assessments of relative power are not consistent across groups. If conflict is a mechanism for discovering or establishing the relative power of competing organizations, an end to the conflict can only come about when the relevant organizations implicitly agree about their relative power. This is why conflicts cannot in most cases be resolved by discussions and formal agreements, because the source of the conflict was a disagreement about relative power and that is very difficult to establish through a discussion. Discussions and agreements are therefore usually opportunities for contending parties to regroup and mobilize rather than signalling a substantive end to conflict. Only when the expectations of competing organizations have been aligned can formal and informal institutions adjust to provide a distribution of relative benefits commensurate with this relative power. Intense contestation and conflict will then be replaced by 'normal' levels of violence as a new political settlement is established.

The emergence of a sustainable distribution of power between organizations is a necessary but not a sufficient condition for achieving a new political settlement. A political settlement has to be viable and will therefore only emerge if the new configuration of power and institutions allows minimum economic viability conditions

to be met. This is by no means certain because it may not be possible to achieve economic viability while respecting the distribution of resources now demanded by powerful organizations. If the political settlement does not meet the broader viability requirements it is not a political settlement because conflict may again break out. The failure to meet expectations is likely sooner or later to result in new mobilizations that again threaten the ruling coalition. This conflict is likely to continue till a reproducible (and therefore viable) equilibrium emerges based perhaps on a different distribution of power and benefits between organizations. Conflicts are therefore mechanisms through which relative power is discovered or established, and in some cases prolonged conflicts are necessary to change the relative power of organizations so that viable political settlements can emerge. Unfortunately, not only are the human costs of this process very high, in some cases the process of conflict may be so long and costly that a viable economy may by then be very difficult to construct making the 'solution' vulnerable yet again.

7. Challenges for Policy

The alternative analytical framework of political settlements suggests a different set of policy challenges for developing countries threatened by conflict. Institutions that achieve stability by enforcing a rule of law and security will only succeed if a social equilibrium between institutions and organizations can be sustained by formal institutions. We have seen that this implicitly implies the presence of a broad-based advanced capitalist economy because this creates the conditions for a political settlement with these characteristics. Institutions enforcing a rule of law and providing justice play a very different role in this context because they enforce formal rules that are largely already in equilibrium. Conflicts can still emerge if new organizations (say of the working class) become stronger and demand a change in the formal distribution of benefits. However, given the overall context of formalization, these conflicts have to be played out in a largely rule-following way, which can constrain the bargaining power of new mobilizations like unions or regional autonomy movements. Outright violations of rules are more often associated with relatively marginal extremist deviations. These can often be dealt with effectively using strong enforcement capabilities of the agencies enforcing a rule of law and security.

The extrapolation of these results to the typical developing country context simply does not work. When conflict breaks out in the latter, powerful organizations that are each largely informally organized happen to disagree about the benefits they are each receiving. This is typically because some organizations feel their incomes and opportunities are disproportionately low given their perception of their true relative power. Since a fully formal institutional structure does not exist that represents the rights of individuals and organizations in a reproducible equilibrium, it is not clear what legitimacy means in this context. Accepting the informal demands of new organizations that are informally expressed through mobilizations may be just as legitimate as rejecting these demands. There may be no rule-following way to resolve this conflict because the incomes and rights that are being contested are themselves not fully formal. In these types of distributive conflicts, agencies that enforce the 'rule of law' and provide security cannot solve the problem in a rule-following way. We, the observers, need to make assessments of political possibilities to decide whether the activities of conflicting organizations are legitimate or not given our assessment of the social constituencies they represent and the alignment of their expectations of a different share

of political rents with their potential ability to organize. Political assessments are not always correct, and are difficult to separate from prior biases and preferences of the assessor but there is no alternative to a transparent political economy analysis and a willingness to engage in debates with alternative interpretations and positions.

The attempt to enforce a rule of law and formal institutions in contexts of conflict of this type, without addressing the political issue of the distribution of benefits and power across organizations cannot be accepted as legitimate by excluded organizations who are bidding for a different distribution of income and power. If the excluded organizations could be politically or physically wiped out through these 'enforcement activities', that may represent a solution of sorts, even if observers did not support such an outcome. The violent destruction of the Tamil Tiger organization in Sri Lanka in 2011-12 is an example of this type of solution, at least for the moment. A more typical result is when the (inevitably partial) attempt to enforce formal rules by a ruling coalition, possibly with outside assistance, results not in the destruction of the excluded, but in a growing ability of the excluded to mobilize support from broader society as the latter gets worried about the monopolistic aims of the ruling coalition. The experience of countries like Afghanistan suggests that not only is it very difficult to claim legitimacy by enforcing the 'rule of law' in these contexts, the attempt may itself lead to the legitimacy of the ruling coalition declining in the eyes of uncommitted citizens, and a growing number of opposition organizations going underground. The latter are likely to increasingly see the ruling coalition as clients of foreign powers using illegitimate support to strengthen their hold on power through a combination of formal and informal enforcement. In reality, the only viable conflict resolution approach is to engage *politically* to try and establish a new distribution of formal and informal rents that is sustainable, and that is a new political settlement.

This analysis has uncomfortable implications for those who believe that conflicts are deviations from a legitimate social order. The discourse on enforcing a rule of law and security assumes there is a rule-following route back to this implicit legitimate equilibrium. This is a comfortable assumption because if it were true, strengthening this underlying legitimate social order through institutional development would help bring the conflict to a close. But if this assumption is wrong, what should be the position of liberal humanists in these contexts? Clearly accepting that might is right is not a progressive option. First, if might ignores the construction of underlying social networks, repression can only postpone the problem and help it to acquire more unmanageable proportions. But secondly, the demands of justice mean that political settlements achieved by the extermination or forced exclusion of significant coalitions must be unacceptable *even if* the political settlements turn out to be viable on other grounds. But equally, it is futile to attempt to go against the grain of social power in particular societies, to impose a coalition of organizations that appear to be progressive, but which may have little chance of ever achieving a viable political settlement in their societies.

The political settlement analysis implies that analysis has to identify an equilibrium of organizations that represent not only existing organizations but also underlying social constituencies and networks and work to promote formal and informal institutional arrangements that can achieve an intertemporal allocation of political rents that can achieve stability. This can include providing good analysis to stakeholders and organizations in particular countries explaining why strategies of exclusion or

repression based on the enforcement of particular formal rules is likely to be unsustainable. It also requires working politically and strategically to achieve these goals. The assessment of sustainability and of underlying social mobilizations and networks is an art not a science, and involves governance advisors, political economists and economists engaging in a public debate about how economic development and political stability is to be achieved in particular contexts. The analytical framework provides a check for cross-country comparisons and for organizing this discussion, it does not provide us with a checklist of things to do to achieve stability, security and development in particular countries.

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