Rents, Rules or Revolution: A Survey of Institutional Pathways to Peace

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Abstract

This paper reviews the growing literature on the relationship between institutions—political, administrative, and economic—and the emergence and prevention of armed conflict. We synthesize evidence showing how strong, inclusive, and accountable institutions, including democratic governance and robust state capacity, can reduce the risk of conflict through multiple mechanisms such as inclusion, deterrence, credible commitment, and the effective provision of public goods. At the same time, we examine how conflict can erode institutional quality, creating self-reinforcing cycles of fragility and underdevelopment. The review concludes with a set of policy recommendations aimed at breaking these cycles and outlines a forward-looking research agenda to deepen our understanding of how institutional reform can foster peace and resilience in fragile and conflict-prone settings.

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1 Introduction

Over recent years, global patterns in armed conflict and democratic governance have shifted significantly. Democracy has experienced a troubling decline worldwide, characterized by increasing autocratization, weakening checks and balances, and eroding democratic norms (Lührmann et al. (2022); V-Dem Institute (2023)). Concurrently, the incidence and severity of armed conflicts have risen notably after a period of relative stability following the end of the Cold War (ACLED (2024); Rustad (2024)).

These parallel trends—the erosion of democratic institutions and the resurgence of armed violence—raise important questions about the role institutions play in managing social tensions and political competition. Robust institutions have historically been seen as critical safeguards against violence. They shape incentives, determine resource allocations, and influence power dynamics, all of which critically affect the risk and intensity of armed conflict. Understanding these mechanisms is essential for both academic analysis and policy formulation. Yet, despite widespread recognition of their importance, the exact pathways through which institutions influence violence remain hotly debated.

In this paper, we review and synthesize existing literature on how institutions affect conflict, with a particular focus on political institutions, state capacity, and economic structures. Our goal is to clarify these pathways, highlight gaps in current knowledge, and identify promising areas for future research and effective policy interventions.

In economics, the conceptualization of institutions has been heavily influenced by North (1990), who defines institutions as the "rules of the game".[1] This definition has guided much of the economic literature, including studies of conflict, which typically interpret institutions as frameworks that shape incentives. This perspective tends to abstract institutions as primarily incentive-setting mechanisms, whereas sociologists or anthropologists might

[1] North (1990), p. 3: *"Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. [...] In consequence they structure incentives in human exchange, whether political, social, or economic."*

emphasize their symbolic, cultural, or normative dimensions.

Institutions can be formal or informal. Formal institutions include political structures—such as electoral systems, governance arrangements, and constitutional checks and balances—that determine how power is allocated and exercised. They also encompass administrative mechanisms, law enforcement systems, and anti-corruption frameworks that collectively define a state's capacity and effectiveness. Economic institutions—such as property rights, financial regulations, and market rules—significantly influence economic opportunities and resource allocation. Informal institutions comprise social norms, traditions, and community networks, which can either reinforce or undermine formal rules. Furthermore, international institutions, including global organizations and regional alliances, shape domestic conditions by promoting peace, stability, and economic development, especially in regions with fragile or weak domestic institutions.

Among the various institutional dimensions, we focus specifically on political institutions, state capacity, and economic institutions. Political institutions govern the allocation of decision-making authority and the distribution of *de jure* political power. They include both formal elements—such as constitutions, electoral systems, and governance structures—and informal constraints like political norms, conventions, and unwritten practices. However, political institutions are influenced not only by these formal and informal rules, but also by the distribution of *de facto* power arising from legitimacy, wealth inequality, and the potential use of violence by societal groups (Acemoglu and Robinson (2006)). Collectively, these factors shape group interactions and political competition. While political institutions determine whether we classify a country as democratic or autocratic, understanding the incentives to engage in armed violence requires distinguishing between formally institutionalized (*de jure*) power distributions and the actual (*de facto*) power dynamics. For instance, while democratic elections may formally grant power through votes, outcomes can still be influenced significantly by voter intimidation, informal networks, wealth inequalities, or threats of violence, indicating that formal institutions alone cannot fully account for political realities, *de facto* power remains critical.

State capacity refers to the government's ability to effectively implement policies, collect taxes, provide public goods, and enforce law and order. A state with strong administrative institutions and credible security forces is more likely to maintain social order and prevent grievances from escalating into violence. Conversely, weak state capacity often allows armed groups to challenge government authority and disrupt stability.

Economic institutions—such as property rights protection, labor market regulations, contract enforcement mechanisms, and rules governing market competition—play a crucial role in shaping the distribution of economic resources and opportunities. These institutions directly influence *de facto* power relationships and determine key economic outcomes, including income distribution, investment decisions, employment opportunities, and wage structures, thus significantly affecting incentives for cooperation or conflict within society.

Although our discussion will mostly focus on political, state-capacity, and economic institutions, it is important to recognise two cross-cutting dimensions that permeate—and often condition—the operation of every formal rule we examine: informal institutions and culture. A comprehensive survey of these dimensions would require its own review; here we highlight their relevance and delimit our scope.

Informal institutions comprise the unwritten rules—social norms, conventions, moral beliefs, and network-based obligations—that structure behaviour outside (and frequently alongside) statutory law and bureaucratic procedures. They range from clan-based dispute-resolution councils in parts of the Sahel, to clientelist party machines that allocate benefits in many democracies, to the "street-level" norms governing interactions between security forces and citizens. Depending on how incentives and enforcement mechanisms align, informal institutions can substitute for weak formal rules, complement them by filling enforcement gaps, or actively undermine them (Helmke and Levitsky (2006); Greif (2006); Stiglitz (2000)). Their capacity to reshape the distribution of *de facto* power means they can be pivotal in either mitigating or fuelling violent conflict—even when formal arrangements appear unchanged.

We also acknowledge—but do not attempt to survey—the extensive literature on culture as an omnipresent substrate shaping the evolution of both formal and informal institutions. Enduring cultural traits—shared beliefs about legitimacy, trust, reciprocity, or acceptable levels of violence—help determine which informal arrangements are viable, which formal reforms "stick", and how citizens perceive institutional fairness and effectiveness. Political trust, in particular, has been shown to hinge on the perceived impartiality and competence of state institutions (Rothstein and Stolle (2002); Levi and Stoker (2000)). These cultural underpinnings, in turn, influence conflict dynamics in ways that remain empirically challenging to disentangle (Putnam et al. (1993); Tabellini (2008); Guiso et al. (2016)). Future research that integrates cultural persistence with institutional change promises deeper insight into the heterogeneous effects of institutions on armed conflict, but such an endeavour lies beyond the bounds of the present survey.

A good starting point for understanding how institutions shape the outbreak, intensity, and duration of armed conflict is to consider theories that explain why such conflict arises and escalates. One influential strand of this literature builds on contest functions, originally developed in the context of rent-seeking theory. Tullock (1980) introduced what is now widely known as the Tullock contest function, modeling how rival actors allocate resources to "fight" over a valuable prize or rent. In these models, conflict occurs when the expected payoff from capturing the rent exceeds the cost of contesting it. This logic was extended to the study of violent conflict by early contributions such as Grossman (1991) and Skaperdas (1996), who formalized how groups invest in appropriation versus production under weak property rights.[2] In such models, the scale of violence depends on both the value of the contested prize, the technology of the contest and the security of claims to it. Conflict emerges in equilibrium since, if one side withholds effort, the other can obtain the prize with little cost. However, despite conflict emerging as an equilibrium outcome, it remains inherently inefficient since resources are diverted away from productive uses toward appropriation or

[2] Becker (1983) proposed a similar idea of "influence functions" for lobbying efforts.

defense. This contest-based approach has since become central to theories linking conflict to the institutional and economic environment.[3]

Another large branch of the literature conceptualizes conflict as resulting from commitment challenges and information asymmetries, which can prevent otherwise mutually beneficial settlements. In a seminal contribution, Fearon (1995) challenged the notion that war is inherently irrational by showing how armed conflict can emerge as a rational outcome under specific conditions. Fearon identifies three primary mechanisms through which rational actors may nonetheless fail to reach a peaceful settlement: incomplete information about opponents' capabilities or resolve, commitment problems that hinder credible agreements about future behavior, and issue indivisibilities, where the object of dispute cannot be easily divided. For instance, an incumbent power may reject a peaceful deal today if it fears that the rising power will renege once its own relative power increases—an archetype of commitment failure. Alternatively, misjudging an adversary's willingness to fight due to asymmetric or private information may lead one side to initiate conflict based on false assumptions.

Building on this logic, a vast literature has examined the role of institutions in preventing bargaining failures and sustaining peace. Acemoglu and Robinson (2001) argue that democratization can resolve elite–citizen conflict by acting as a credible commitment to future redistribution. In a different setting, Rohner et al. (2013b) focus on ethnic conflict, showing how distrust and negative inter-group expectations shrink the space for cooperation and increase the risk of war. Blattman (2023) broadens and deepens the rationalist framework by identifying five reasons why societies go to war even when peace is materially preferable. In addition to the classic problems of incomplete information, commitment problems, and indivisibilities, Blattman

[3]Esteban and Ray (1999) and Esteban et al. (2012) further model how individuals contribute to group-level violence in contests, linking micro-level motivations and distributions of income, religion, and ethnicity with macro-level outcomes. Besley and Persson (2011a) use the framework to show how institutions determine the share of national rents that can be captured through violence, thereby shaping incentives for armed conflict. The framework has also been extended beyond armed conflict to other related settings, such as criminal predation, where firms invest in protection to defend against violent rent extraction (Besley and Mueller, 2018b).

highlights two other mechanisms: unchecked interests and misperceptions. Leaders may initiate or prolong conflict when they do not internalize the full costs of war—for instance, when political elites benefit personally from violence, or when costs fall disproportionately on civilians or marginalized groups. Moreover, psychological biases, such as overconfidence or misperceived threats, can skew decision-making and make conflict more likely, even in the absence of material incentives. Institutions, in this framework, play multiple roles by changing the incentives of leaders, their ability to commit, and the flow of information.

In both of these broad frameworks, institutions will have direct and indirect effects on the occurrence and intensity of armed violence in society.

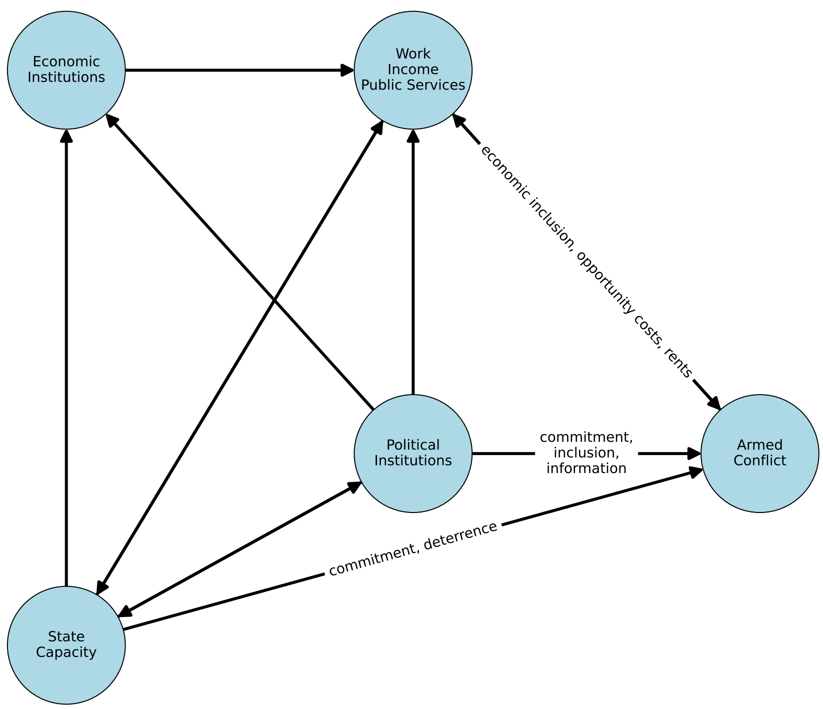

Figure 1: Conceptual diagram of the causal mechanisms in our framework.

Figure 1 summarizes the most important causal links through which institutions affect the prevalence of conflict. At its core, political institutions, state capacity, and economic institutions collectively shape conflict outcomes both directly and indirectly. Political institutions influence conflict primarily through their effects on inclusion, commitment, and information; inclusive institutions mitigate grievances and resolve bargaining failures, thus reducing conflict risk. Economic institutions affect conflict through their impact on economic inclusion, opportunity costs of violence, and the size of rents available for capture. Robust state capacity deters conflict by ensuring effective provision of public services and by reinforcing credible commitments and deterrence. In addition, state capacity supports economic development, raising incomes, creating work opportunities, and improving public service delivery, further increasing the opportunity costs associated with joining armed groups.

Figure 1 also highlights the fact that empirically disentangling causal effects in this context is challenging due to significant feedback loops and self-reinforcing traps. The conflict itself directly deteriorates the state capacity through the physical destruction of infrastructure and bureaucratic resources. Furthermore, political instability creates strategic disincentives for leaders to invest in state building, strengthening a cycle of institutional fragility. Furthermore, state capacity and political institutions mutually reinforce each other, complicating causal identification and making it difficult to establish clear one-directional effects. These complexities underscore the need for careful theoretical and empirical approaches to fully understand the intricate relationships that drive institutional and conflict dynamics, as explored throughout the remainder of the paper.

In what follows, we synthesize the expansive literature examining how institutions shape conflict outcomes through their political, economic, and administrative dimensions. We begin by discussing the broad empirical patterns linking democratic governance and political institutions to violence, emphasizing key causal channels such as economic opportunity costs, rent-seeking incentives, and bargaining failures (Section 2). Sections 3 and 4 explore the role of state capacity and economic institutions as critical determinants of conflict. Section 5 identifies actionable policy interventions aimed at breaking cycles of institutional fragility and violence, emphasizing targeted investments in state capacity, inclusive political processes, and equitable economic reforms. Finally, we outline a forward-looking research agenda that addresses pressing knowledge gaps, emphasizing the urgent need for deeper theoretical and empirical investigations at a time when institutional quality worldwide is declining, posing heightened risks of instability and conflict recurrence.

2 Political Institutions and Democracy

To set the stage, we begin by examining broad cross-country evidence on political institutions and violence. Figure 2 displays a binned scatter plot of armed conflict (country-level share of months in armed conflict over the 1989-2023 period) versus a democracy index (V-DEM Egalitarian Democracy Index)— see the graph notes for details on the definitions of the variables. The relationship is striking: beyond a democracy score of 0.4, there are hardly any months of armed conflict. If we define a "democracy" as a country with a score above 0.4, the average probability of armed conflict is just 2 percent in the democratic sample, compared to 14 percent in the non-democratic sample. Notably, this pattern is not simply the result of cross-country variation. Countries that transition from non-democratic to democratic status experience, on average, a 7 percentage point reduction in the likelihood of an armed conflict period. In other words, democracies are more peaceful than non-democracies, and new democracies become more peaceful on average.

Of course, we must be cautious in interpreting these patterns causally. It is possible that countries become both more peaceful and more democratic as they develop economically, or that political institutions respond to the outbreak of armed violence. Nonetheless, the strength of this correlation is important to bear in mind when considering the potential role of political institutions in managing conflict. In the sections that follow, we review how the literature has sought to advance our understanding—both theoretically and empirically—of the causal links between political institutions, in general, and democracy, in particular, and the incidence of violence.

Cross-country research in political science and economics emphasizes the

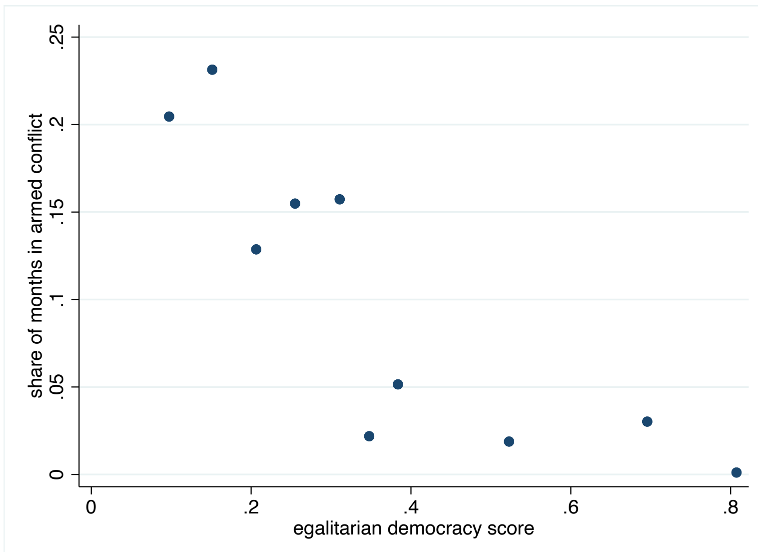

Figure 2: Armed Conflict and Democracy.

The figure shows a binned scatter plot relating the share of months in armed conflict (Y-axis) and the Egalitarian Democracy Index (X axis). Armed conflict here is defined as a month with more than 0.5 fatalities per 1 million inhabitants using the UCDP dataset. The share of months in conflict is computed over the period 1989-2023. At the country level the mean is 0.1 with a standard deviation of 0.19. The democracy score index is computed by averaging the values of the Egalitarian Democracy Index (V-DEM) for the same period. The binned scatter plot reports decile values. The democracy index is measured between 0 and 1 with 1 indicating stronger egalitarian democracy institutions. The sample mean at the country level is 0.37 with a standard deviation across countries of 0.22.

critical role of political institutions in shaping violence outcomes (Maoz and Russett (1993)), but the overall picture is more nuanced than the simple correlation shown in Figure 2. First, there is growing consensus that elements beyond the right to vote and free and fair elections, like checks and balances, play a critical role in this relationship (Besley and Persson (2011b); **?**). For instance, Hegre et al. (2001) and Goldstone et al. (2010) highlight an inverted U-shaped relationship between democratic institutions and violence. Fearon and Laitin (2003) find that strong political institutions, indicators of a robust state and effective governance, negatively correlate with civil war incidence. However, they also show that democracy itself, or specific regime types, do not systematically predict civil wars once other factors are controlled for. Other cross-country studies, such as Mueller and Rauh (2024), which exploit time variation but omit controls, find a strong negative relationship similar to the one depicted in Figure 2.

These differing findings raise an important methodological issue: Is economic development an appropriate control in this context? Specifically, does economic development arise as a consequence of political institutions and armed conflict, or is it itself a causal driver? Addressing this question effectively requires additional theoretical structure and alternative empirical approaches. Returning to the causal framework outlined in Figure 1 can help us better evaluate the impact of political institutions in general—and democratic institutions in particular—on outcomes related to armed violence.

2.1 Economic Development, Rents and the Opportunity Cost Channel

Institutional quality and democracy can foster economic development, raising the opportunity cost of rebellion and reducing incentives for conflict—a key theme in the classic review article by Blattman and Miguel (2010). Conversely, poverty and negative economic shocks can fuel violence by lowering the cost of recruitment into armed groups.

Most economists will agree on the importance of the opportunity cost channel. It is easier to recruit young men to conduct acts of violence if they have few alternative modes of income. According to this logic, high wages and work opportunities hamper armed conflict.[4] The logic of this channel has its place in both of the main models of conflict. When modeling conflict as a negotiation failure, for example, a strong local economy serves as a strong outside option increasing the space for peaceful negotiations. When modeling conflict as a contest at the group level one can simply think of wages as the cost of recruiting fighters for violence. However, some subtleties need to be kept in mind. First, transfers are both lootable and raise opportunity costs which makes them a double-edged sword in the context of fragility (Premand and Rohner (2024)). Second, violence emanates from armed groups and so the effect of economic conditions on internal organizational structure needs to be kept in mind (Trebbi and Weese (2019)).

There is indeed a recent literature that stresses the role of democracy in improving economic outcomes. Abeberese et al. (2023), for example, find that democratization in Indonesia led to higher productivity and economic growth. Similarly, using cross-country data and modern panel data methods Acemoglu et al. (2019) demonstrate that "Democracy Does Cause Growth." However, high rents and high wages can have completely different effects on conflict (Dube and Vargas (2013)) and, therefore, not all "economic development" is made equal. It is therefore important to consider exactly how political institutions improve economic outcomes and along which dimensions. The exact effects of political institutions through this channel will depend on how they affect the distribution of income, wealth, and employment opportunities and how this, in turn, affects the incentives to engage in armed conflict.

Another channel through which political institutions affect violence outcomes is through their impact on resilience to economic shocks. Besley and Mueller (2018a) show, for example, that strong executive constraints are associated with reductions in growth volatility, which in turn predicts higher inflows of foreign investment. Sudden economic contractions and abrupt expenditure cuts have been shown to trigger adversarial politics and conflict. If political institutions can prevent such shocks or mitigate their effects, they

[4] For a review of the evidence, see Rohner (2024); and for one of the seminal RCTs on this issue, see Blattman and Annan (2016).

may help in conflict prevention. However, election cycles tend to amplify rather than prevent cyclical behavior which means that different elements of democracy—such as elections and checks and balances—could have opposing effects on conflict through this channel.

There is strong literature on the role of political institutions in changing economic opportunities across regions/groups. Burgess et al. (2015), for example, show how democratic institutions influence the geographic allocation of road construction projects in ethnic regions in Kenya. During democratic periods, the tendency to favor the leader's ethnic region in road construction effectively disappears. Similar evidence from a larger sample of countries comes from Hodler and Raschky (2014) and De Luca et al. (2018), who use satellite nightlight data as a proxy for local economic activity. Their findings indicate that regions tend to "light up" economically when a leader from that region comes to power, suggesting the presence of ethnic favoritism. Guarnieri (2025) finds that this favoritism triggers conflict, especially with those groups that have a large cultural distance to the group in power. Ethnic favoritism is stronger under autocratic regimes and weaker under democracies. Leipziger (2024) shows that ethnic inequality falls with democratization—and especially in countries with very unequal distributions under autocracy.

From a purely economic perspective this should imply that individuals from regions that are not aligned with the ethnicity in power are economically better off under a democracy and have less of an incentive to engage in violence. However, institutions also change the distribution of rents and scarce resources—which are big motivators for conflict. We turn towards this next.

2.1.1 Rent-Seeking and Resource Competition Channel

"Greed" motives or "rapacity" effects is how the literature typically frames this channel. Weak institutions (a topic to which we will return in Section 3) encourage rent-seeking via violence because they fail to enforce property rights or equitable sharing of wealth. In contest theory terms (Grossman (1991), Skaperdas (1996)), groups fight when the prize is large and security of claim is low. Violence becomes a tool to capture economic rents, entrenching a low-development, high-conflict equilibrium (Besley and Persson (2010)). Democratic and inclusive institutions can shrink the prize of winning power (by sharing spoils, instituting checks) and increase the cost of fighting (via strong enforcement).

Buonanno et al. (2015) provide evidence of a resource curse in contexts of weak governance: rich mineral deposits in weak institutional environments correspond to more violence and conflict. Essentially, where institutions do not constrain elites, natural wealth becomes a prize worth fighting over (or worth capturing the state for). This can also lead to unintended consequences in the context of regional federalism. Shapiro and Vanden Eynde (2023) study this in the context of Indian mining royalties, which benefit the states but are set by the central government. They find that a royalty hike was followed by a significant intensification of violence in India's Maoist belt in districts with important iron ore deposits. Selection mechanisms also suffer in this context. Asher and Novosad (2023) show that in India, mining resource booms led to the rise of criminal politicians and violence. When a sudden rent (mineral wealth) becomes available, competition to control it intensifies, often through illicit and violent means, especially where local institutions are too weak to manage resources transparently. A notable benchmark in this context is provided by Castillo et al. (2020), who study gang violence in Mexico in the context of exogenous drug supply shortages. They develop a model suggesting that supply shortages, by increasing prices and revenues, can escalate into violence when there are no secure property rights.[5] Empirically, they analyze the Mexican cocaine trade and find that cocaine supply shortages, resulting from seizures in Colombia (Mexico's primary supplier), lead to increased violence in Mexico.

There is not much research on how differences in institutions affect outcomes using experimental or quasi-experimental variation. Blattman et al. (2014) study a mass education campaign to promote alternative dispute resolutions (ADR). They study the short-term impacts of one such campaign in Liberia, where property disputes are endemic. Residents of 86 of 246

[5] We discuss the role of property rights in detail in Section 4.

towns randomly received training in ADR practices and norms. One year later, treated towns had higher resolution of land disputes and lower violence. Fetzer and Kyburz (2024) exploit data on local government revenues and democratic institutions in Nigeria to examine the relationship between rents and conflict. They find that conflicts are highly organized and concentrated in districts and periods with unelected local governments. However, this relationship weakens considerably once local governments become elected, highlighting the pacifying role of local democracy. A cross-country study in Africa by Berman et al. (2017) finds that institutions such as clear property rights and benefit-sharing mechanisms mute the response of conflict to resource rents. But they cannot confirm that democratic institutions at the country level lower the effect of mineral rents on conflict. In addition, resource windfalls can also affect the nature of the political regime itself. Caselli and Tesei (2016) first show that resource windfalls have no effect on democracies, while they have heterogeneous political consequences in autocracies. In deeply entrenched autocracies, the effect of windfalls is virtually nil, whereas in moderately entrenched autocracies, they significantly exacerbate the autocratic nature of the political system.

The role of institutions will depend on the channel through which conflict arises. Huber and Mayoral (2019) show that within group inequality is what matters for conflict outcomes. Their model brings together opportunity cost and rent channels: high wages lower the ability to recruit fighters, while high wealth increases the ability of the rich to recruit the poor. Institutions could affect these two channels differently. McGuirk and Burke (2020), for example, use data on agriculture and different types of conflict from the African continent to show that lower crop prices increase the likelihood that rural groups engage in battles over territorial control —driven by the opportunity cost effect described above. But conflict over the land rents decreases with falling prices. In this context, institutions—measured by precolonial levels of centralization—play a role in mitigating large-scale factor (land) conflicts, but not in hindering output conflict events.

2.2 Negotiation Failures as a Channel

Conflict, as emphasized by Fearon (1995), can fundamentally be understood as a bargaining failure. War emerges not because parties desire it per se, but because they fail to find credible agreements due to information asymmetries, indivisible issues, or commitment problems. Acemoglu and Robinson (2001) further developed this logic by modeling democratization as a strategic response of elites to revolutionary threats, addressing precisely such commitment problems. They argue that nondemocratic elites cannot credibly promise future redistribution or political inclusion without institutional reform. Democratization thus acts as a credible commitment mechanism to prevent revolution, effectively making promises of inclusion believable and durable.[6]

An important aspect of negotiation failures as a model is the notion that rapid changes in the environment can disrupt a negotiated equilibrium. In the seminal paper of (Rodrik, 1999), institutions are modeled as a mechanism that prevents economic shocks from triggering large-scale social conflict. In this view institutions regulate the negotiations themselves and can open up a larger space for the peaceful resolution of conflicts. Chaney (2013) demonstrates how division of power into different political institutions can help maintain peace. He shows that Egyptian monarchs would leave religious leaders in place at times of economic shocks because they could serve as shock absorbers with their religious authority.

Building on this theoretical perspective, Besley and Persson (2011a) propose that violent conflict arises when institutional frameworks fail to enforce peaceful bargains. Specifically, when ruling groups cannot credibly commit to future policy concessions, opposition groups perceive violence as the only viable alternative.[7] Institutional arrangements, such as constitutions, demo-

[6]Buchheim and Ulbricht (2020) interpret the history of revolts and political transition through this lens. In their model, the beliefs of disenfranchised citizens play a key role in determining revolutionary pressure, which in interaction with preemptive reforms determine regime dynamics.

[7]See also Morelli and Rohner (2015) who develop a theoretical model showing that uneven distribution of natural resources, particularly when concentrated in a minority group's territory, can lead to bargaining failure and conflict.

cratic elections, power-sharing pacts, or third-party enforcement, become mechanisms that transform short-term promises into long-term guarantees. This mechanism should also be regarded as an argument for decentralization in the context of ethnic relationship and rent extraction by the central state as argued in Padró i Miquel (2007) and Burgess et al. (2015). Jackson and Morelli (2007) add nuance by showing how biases among political elites, prevalent in nondemocratic settings, exacerbate negotiation failures by skewing perceptions of the costs and benefits of war, further reinforcing the need for accountable political institutions.

Empirical support for these theoretical insights is evident in the historical studies by Aidt and Franck (2015) and Marcucci et al. (2023). Both studies demonstrate how franchise expansions in the 19th-century UK served as institutional concessions under revolutionary threats. In these contexts, elites preempted violent conflict by credibly committing themselves to broader representation and future policy influence. Similarly, Angelucci et al. (2022) illustrate how medieval England's merchant towns secured representation in parliaments to institutionalize power-sharing, thus avoiding violent conflicts between economic elites and the Crown. Institutionalizing political inclusion, therefore, emerges historically as a crucial solution to bargaining failures caused by commitment issues. However, the literature also points out that changes in political representation without other safeguards in place can even trigger intense violence because the militarily stronger group becomes violent (Esteban et al. (2015)).

But overall, the evidence clearly points to political inclusion mechanisms such as power-sharing, decentralization, and democratic accountability as effective tools for preventing armed conflict. Collier and Rohner (2008) highlight how democratic institutions reduce rebellion incentives through greater accountability and representation. Michalopoulos and Papaioannou (2016) demonstrate that ethnic groups which are divided by national lines are engaged in significantly higher levels of armed conflict. One of the mechanisms for this is government-led discrimination. This confirms earlier findings that paint political exclusion of ethnic groups as an important driver of armed conflict (Cederman et al. (2011)). A remarkable case study comes from the United States. The Voting Rights Act (VRA) of 1965, an institutional reform that enfranchised Black Americans in the Jim Crow South, led to a measurable decline in political violence. Lacroix (2023) finds that enfranchisement under the VRA "halved the incidence and onset of political violence", with violence by both pro-segregation extremists and civil rights militants dropping significantly. Similarly, Leipziger (2024) empirically demonstrates that democratic institutions reduce ethnic inequalities, thus addressing underlying grievances and reducing motivations for ethnic conflict. Laurent-Lucchetti et al. (2024) contribute to this literature by showing that democratic transparency and electoral processes reduce uncertainty and mistrust between ethnic groups, thereby diminishing conflict risk stemming from incomplete information and mutual fears.

Crucially, institutions play a role beyond the right to vote or political representation, which is important in the context of fragile states. Access to the legal system is a key correlate of peace (Mueller and Rauh (2024)) and there is a growing literature that shows that it is ethnically biased (Shayo and Zussman (2017), Choi et al. (2022)). This means that institutions like the legal system and the bureaucracy play critical roles in armed conflict as they simultaneously provide services, discussed below, and access to power. As such, they can become mechanisms of either exclusion or inclusion, and provide the commitment power necessary for sustaining peace. A remarkable finding in this regard comes from Bai and Jia (2016), who show that a change in recruitment into the bureaucracy in China contributed significantly to the uprisings in 1911 that marked the end of 2,000 years of imperial rule.

In addition, communication and media amplification play a critical role in how democratic political institutions work (Besley and Prat (2006)). For violent conflict they can play both positive and negative roles depending on the mechanism that they amplify. Yanagizawa-Drott (2014) studies the role of the radio in triggering mass violence in Rwanda. Müller and Schwarz (2020) find that Facebook hate speech contributes to offline racial violence. A key finding here comes from Manacorda and Tesei (2020) who show that mobile communication has dramatically different effects on protest mobilization depending on the underlying economic conditions. Armand et al. (2020)

examine the impact of FM radio broadcasts aimed at encouraging defections during the Lord's Resistance Army (LRA) insurgency in Central Africa. Their findings indicate that broadcasting defection messages led to increased defections and reductions in fatalities, violence against civilians, and clashes with security forces. Additionally, the study notes that income shocks can influence both the conflict dynamics and the effectiveness of such messaging.

Identity is another important aspect of whether institutions can regulate conflict. Identity defines the way that conflict and interests are perceived and is therefore at the heart of many armed conflicts. Fearon and Laitin (2000) argue that identity is manipulated by leaders to further conflict if it is in their own interest. Cáceres-Delpiano et al. (2021) show with Spanish data that military service strongly shaped the identity of young men —strengthening a national identity for regions with weak national identification. Depetris-Chauvin et al. (2020) study football cup wins and their consequences on ethnic identification. They show in the African context that national identity receives a boost when the national team wins. Blouin and Mukand (2019) examine whether propaganda broadcast over radio helped to change interethnic attitudes in postgenocide Rwanda. They show that individuals exposed to government propaganda have lower salience of ethnicity, increase interethnic trust, and show more willingness to interact face-to-face with members of another ethnic group.

3 State Capacity

State capacity refers to a government's ability to effectively administer its territory, enforce law and order, collect taxes, and provide essential public goods (Besley and Persson (2010); Besley and Persson (2011a)). Rooted in classical studies of political sociology and historical state formation (Tilly (1975); Tilly (1990); Skocpol (1985); Mann (1986); Ertman (1997)), the concept traces its intellectual lineage to the seminal scholarship of Otto Hintze and Joseph Schumpeter. While closely related to institutional quality—broadly understood as the rules structuring political, economic, and social interactions—state capacity specifically emphasizes the operational effectiveness of the state apparatus, including its bureaucracy, security forces, and judicial institutions.

State capacity comprises two interconnected dimensions: *fiscal capacity*, referring to the state's ability to generate revenue through taxation; and *legal capacity*, encompassing the provision of reliable judicial institutions, the enforcement of property rights and contracts, and the efficient delivery of public services. Although economic analyses often assume state strength as a given, this remains a major challenge in many developing countries. The 2025 edition of the *States of Fragility* report identifies 61 countries experiencing high or extreme fragility, accounting for 25% of the world's population but 72% of those living in extreme poverty (OECD, 2025).

Besley and Persson (2011a) emphasize that there are strong institutional complementarities between legal and fiscal capacity: a government with greater fiscal capacity can fund broader public service provision and more effectively enforce contracts, thereby fostering economic activity and reinforcing political stability.[8] These complementarities cause countries to group into "clusters" of development outcomes, where some countries remain trapped in a low-development equilibrium (weak institutions, limited public goods, high conflict risks), while others achieve robust governance, widespread public service provision, sustained economic growth and peace. This implies that understanding the relationship between state capacity, peace, and prosperity is complex because causality runs in both directions. [9]

An important distinction in understanding the role of state capacity is between external and internal conflict. Historically, external threats have played a critical role in shaping state capacity. Tilly's (1975, 1990) influential claim— *"war made the state, and the state made war"*—underscores how external conflicts generate common societal interests, driving elites to invest

[8] Chambru et al. (2024) exploit the random allocation of administrative capitals in France to show that this mechanism also holds sub-nationally. In the short run, administrative proximity increases taxation and investments in law enforcement. In the long run, capitals obtain more public goods and grow faster.

[9] This section focuses on the link between state capacity and political instability and violence. For a broader discussion on state capacity and economic development, see Johnson and Koyama (2017).

in strong fiscal institutions and effective governance structures necessary to sustain military efforts and defend the state. Evidence from European state formation illustrates how frequent external wars incentivized fiscal centralization, bureaucratic expansion, and the establishment of standing armies, creating a virtuous cycle of state-strengthening and political consolidation (Gennaioli and Voth (2015); Dincecco and Prado (2012); Dincecco et al. (2022); Cederman et al. (2023)). However, these dynamics depend crucially on internal financing. Centeno (2002) contrasts European experiences with those in Latin America, where wars were financed externally through resource rents or foreign debt, removing incentives to build domestic fiscal capacity.

Internal threats—such as insurgencies, civil wars, and political violence—often have the opposite effect. Rather than fostering state consolidation, internal conflicts weaken state capacity by fragmenting authority, eroding trust in institutions, discouraging long-term investments in governance, and directly causing physical destruction of critical infrastructure and bureaucratic resources, further undermining the state's ability to deliver public goods and maintain order. Besley and Persson (2008) formalize this distinction, demonstrating that while external wars align domestic interests and incentivize fiscal strengthening, internal conflicts arise from competing claims to power and frequently lead to underinvestment in state capacity, further entrenching political fragility.

The remainder of this section examines the relationship between state capacity and internal political instability, analyzing the mechanisms through which weak institutions exacerbate violence and conflict. Specifically, it examines how fragile states struggle to deter insurgencies, how commitment problems in weak institutions fuel prolonged violence, and how state capacity traps reinforce cycles of instability.

3.1 Deterrence and Public Services as a Channel

One primary mechanism linking weak state capacity to conflict arises from the state's failure to provide what is arguably its most fundamental public good: security. The idea that strong states deter armed rebellion through their potential for violence goes back to Hobbes (1651) and was refined by thinkers like Max Weber. A government's diminished ability to enforce law and order, protect its citizens, and deter insurgencies directly increases the feasibility and attractiveness of rebellion, see Fearon and Laitin (2003). But when states lack the administrative reach and coercive power to control their territories, they create ungoverned spaces where insurgent groups can organize, recruit, and sustain operations. This dynamic is especially pronounced in peripheral or geographically inaccessible regions, such as mountains and dense forests, where government forces struggle to maintain a presence (Müller-Crepon et al. (2021)). Empirical studies have repeatedly shown that states with weak bureaucracies and ineffective policing are more prone to civil conflict, particularly in sub-Saharan Africa, where many post-colonial states have struggled to consolidate authority (Herbst (2000); Bates (2008)). In such environments, the lack of institutional control fosters rebellion by reducing the costs of mobilization for insurgents while simultaneously weakening the government's ability to respond effectively.

This mechanism is closely tied to a foundational theory of state formation: Olson (1993) *stationary bandit* model. In this framework, "bandits" with long-term horizons invest in state capacity, developing fiscal and legal institutions, because they benefit from stable, predictable tax revenues. In contrast, politically unstable rulers, acting as *roving bandits*, prioritize short-term extraction over institution-building, further undermining governance and long-term stability. This logic suggests that state capacity grows when rulers feel secure enough to invest in governance rather than engage in short-term expropriation.

Empirical evidence supports the view that the ability to collect taxes is key for state creation and stability. Mayshar et al. (2022) show that states historically emerged where taxation was easiest, while Mayoral and Olsson (2024) find that exogenous shocks that weakened the ability to collect taxes in Ancient Egypt led to pharaonic and dynasty turnover, reinforcing the idea that stable taxation underpins political order. Similarly, Chaney (2013) analyzes Egypt's Islamic period and finds that deviant Nile floods strengthened religious authorities' ability to mobilize revolts by undermining political rulers' fiscal and administrative power.[10]

In a modern context, several authors have studied how non-state armed groups establish governance structures where the state is absent Arjona (2015). Using detailed data on mining activities of coltan and gold, Sánchez de la Sierra (2020) provides empirical evidence that armed actors do not solely engage in predation and violence but often develop state-like institutions—including taxation, law enforcement, and public service provision—in areas where taxation is more feasible. Specifically, in coltan-rich regions, where the mineral's bulkiness makes concealment difficult, armed groups establish their presence directly at mining sites. Conversely, in gold-rich areas, where gold's high concealability makes direct taxation at extraction sites challenging, these groups develop governance structures in villages where miners reside and spend their income. The study also finds that in these areas, welfare can improve through the provision of public goods such as security and dispute resolution. Henn et al. (2024) explore the delicate balance between taxation, governance, and violence in weak states. Their study shows that state efforts to dismantle rebel taxation through military intervention in the DRC can escalate violence rather than restore order. When the state prevents rebels from levying taxes, armed groups resort to pure predation, plundering the assets of civilians they previously taxed. However, when the state negotiates with rebels, this shift to predation does not occur, but the legitimacy of the state is undermined, potentially leading to the rise of new armed groups. Thus, while armed group taxation can bring short-term stability, disrupting these governance structures without offering viable alternatives can fuel further violence and weaken the prospects for lasting peace.

Law and security are not the only essential public goods whose absence can contribute to conflict. The failure of states to adequately provide other critical public services—such as infrastructure, education, healthcare, and

[10]Other historical evidence includes Karaman and Pamuk (2010), who show how weak Ottoman fiscal structures were central in recurrent provincial revolts, and Grafe and Irigoin (2012), who highlight how the Spanish Empire's fragmented fiscal institutions fostered political fragmentation and ultimately independence conflicts in Latin America.

welfare programs—can also deepen grievances, undermine legitimacy, and create fertile ground for insurgent groups to garner popular support by filling these gaps. One of the central links between armed conflict and state capacity in Besley and Persson (2011b) is that the politicization of state expenditures incentivizes rebellion because it converts the state into a prize to be won and looted. As discussed in Section 2, ethnic favoritism often plays a role in this dynamic. There is also direct evidence that exclusion from public service provision is a central mechanism driving conflict. For example, empirical research from Iraq shows that targeted investments in local infrastructure and service delivery significantly reduce violence by raising the opportunity cost of insurgency and strengthening state legitimacy Berman et al. (2011). Similarly, Beath et al. (2017) provide causal evidence from Afghanistan that community-level development programs offering essential infrastructure and services increase civilian support for the state and reduce insurgent influence. Guarnieri (2025) confirms the general validity of this mechanism with fine-grained data from the entire African continent. She finds that conflict with shifts in political power is more likely among culturally distant ethnic groups who hold divergent preferences over the provision of public goods.

The state's failure in education provision has likewise been identified as an important catalyst for conflict. Low educational access and significant inequalities can foster grievances, particularly among disadvantaged youth, making insurgent recruitment easier (Collier and Hoeffler (2004); Østby and Urdal (2010)). Health and welfare deficiencies further exacerbate the situation, as inadequate healthcare and social safety nets intensify poverty and inequality, fueling grievances and instability. In fact, insurgent groups often capitalize precisely on these deficiencies. In contexts such as Colombia and several African conflicts, insurgents provide education, healthcare, and judicial services where the state is absent, thus gaining legitimacy, solidifying local support, and prolonging conflict (Arjona (2016)). Collectively, this literature highlights the critical importance of robust and inclusive public good provision in preventing grievances and conflict, reinforcing state legitimacy, and ultimately promoting long-term stability.

Moreover, when weak states fail to provide public goods, non-state actors—including insurgent or rebel groups—often step in to fill the vacuum. By strategically providing services and governance, these groups strengthen their legitimacy, embed themselves within communities, and prolong conflict dynamics. Sánchez de la Sierra (2020), for example, illustrates how armed groups in Eastern Congo established effective governance structures in areas neglected by the state, using the provision of public goods to build durable support networks and reinforce their local authority. The Congolese army is neither able nor willing to provide the same local services that armed groups provide and will therefore lose the battle for "hearts-and-minds".

Thus, the capacity of states to deliver public goods emerges as a critical determinant of both the onset and duration of conflict, underscoring the complexity of state-building efforts and the pivotal role effective public service provision plays in securing lasting peace.

3.2 Commitment Problems as a Channel

A second mechanism linking weak state capacity to conflict arises from *commitment problems*. This perspective underscores that state weakness does not merely fail to prevent violence—it actively creates incentives for preemptive conflict by making negotiated settlements unreliable.

Powell (2006) formally demonstrates that commitment problems stem from a single underlying phenomenon: large shifts in the future distribution of power. To see how this might impact conflict, consider as an example a temporarily weakened state that offers concessions to insurgents to secure peace. If the state's strength later rebounds—perhaps due to economic recovery, increased foreign aid, or rising commodity revenues—it may have incentives to renege on its commitments, thus limiting the amount it can credibly promise to the rebel group today. If this time-consistent but more modest transfer is less than what the rebels can gain by fighting today, they will wage war now to lock in the highest possible payoff (Blattman and Miguel (2010)).

A similar commitment problem arises when one party can permanently alter the strategic balance of power by waging war now (Garfinkel and

Skaperdas (2000); McBride et al. (2011); Powell (2006)). If the state anticipates that eliminating a rebel group through military means will remove a long-term threat, it may see violence as a rational investment. By crushing an insurgency today, the government secures a peace dividend, eliminating the need for ongoing deterrence expenditures. This logic can incentivize the state to wage short but bloody conflicts rather than tolerate a precarious peace based on fragile agreements.

These dynamics highlight how weak institutions exacerbate civil conflict. When formal legal and political institutions fail to provide mechanisms for contract enforcement and credible commitments, parties cannot trust that agreements will hold (Fearon and Laitin (2003); La Ferrara and Bates (2001)). Societies with few checks and balances on executive power and weak legal infrastructure are particularly prone to civil war, as they lack the institutional guarantees necessary to sustain peace.

3.3 Caveats

(Besley and Persson, 2011a; Besley, 2020) highlight the complexity of establishing a causal relationship between state capacity and armed conflict, as state capacity itself is influenced by broader economic and cultural factors. They identify a critical feedback mechanism: political instability discourages long-term investments in strengthening state institutions, creating an "investment trap." This trap perpetuates weak state capacity, leading to continued fragility and violence. Particularly in politically unstable contexts, such as resource-dependent countries, leaders strategically underinvest in institutions because building fiscal and legal capacity would promote economic growth and raise wages, increasing the costs of recruiting soldiers. Thus, Besley and Persson argue that two commonly discussed explanations for the prevalence of civil wars in low-income countries—weak state capacity in taxation and low wages due to poorly functioning markets—are both outcomes of deeper underlying factors, such as high resource dependence. In other words, the correlation between weak state institutions and conflict may reflect common underlying conditions ("omitted variables") rather than a direct causal link.

Gratton et al. (2021) offer an additional perspective on the link between political instability and weak state capacity. They demonstrate that political instability often results in the excessive creation of ambiguous and poorly designed laws, thereby undermining bureaucratic efficiency and further eroding state capacity.

In addition, while robust state capacity often deters conflict, strong state institutions can also intensify violence when political power is narrowly concentrated or institutions lack inclusiveness and accountability. This dynamic arises because politically powerful elites can leverage effective bureaucratic and coercive apparatuses to systematically repress dissent, suppress opposition, or entrench authoritarian control (Davenport (2007)). For example, Heldring (2021) shows that Rwanda's historically strong precolonial institutions facilitated mass mobilization for genocide by promoting compliance with authority. Acemoglu et al. (2011) demonstrate how elites may strategically weaken or selectively strengthen state institutions to maintain their political dominance, causing persistent inefficiency, instability, and conflict. Likewise, resource-rich authoritarian regimes often use abundant resource revenues to finance coercive state apparatuses, leading to increased internal repression and violent conflict (Ross (2012)). Hariri (2012) further argues that historically centralized but non-inclusive states develop authoritarian legacies, intensifying internal repression and instability. Chiovelli et al. (2024) find that externally imposed administrative reforms, such as the Bourbon Reforms in Spanish America, significantly enhanced fiscal capacity yet simultaneously disrupted local elite privileges, generating hostility and fueling pro-independence rebellions. Collectively, these studies underscore a critical nuance: without inclusive political institutions, strengthening state capacity can paradoxically exacerbate conflict by increasing the coercive power of narrowly accountable rulers, deepening grievances, and entrenching authoritarian governance.

The overall relationship we observe in the data between political institutions, state capacity and, armed conflict is generated by feedback loops between all three factors. Besley and Persson (2011b) summarize the relationship by positing a ranking in political violence: the weakest states face the risk of two-sided violence, stronger states can suffer from repression and only the strongest states are entirely peaceful. This is because investment in state capacity requires executive constraints to be sustainable in the long run.[11] Sustained investments in state capacity require a population to believe that the apparatus of the state will not be turned against them.

Taken together, the literature reveals a nuanced and reciprocal relationship between state capacity and conflict. Historically, external threats have often incentivized domestic actors to collectively invest in state institutions, generating a virtuous cycle of capacity-building and political stability. In contrast, internal conflicts and political instability frequently erode state capacity through several reinforcing channels, including weakened fiscal institutions, increased commitment problems, elite fragmentation, and persistent cycles of institutional degradation. As a result, low state capacity not only increases vulnerability to political violence but also emerges as a consequence of repeated internal conflicts, creating a self-sustaining cycle of fragility.

4 Economic Institutions

Economic institutions—the rules that organize production, exchange, and the allocation of rents—form a third pillar of development, distinct from political rules of power acquisition and from the state's administrative capacity. They matter for conflict because they shape both the returns to peace and the prizes of predation. Secure property rights, well-functioning markets, and inclusive credit systems raise the payoff to productive effort; discretionary licensing, land grabs, and restricted finance do the opposite. The growth literature has long emphasized these mechanisms (Besley, 1995; Acemoglu et al., 2001; Dell, 2010; Dell et al., 2018; Glaeser and Shleifer, 2002); recent work shows they are equally central to explaining when—and where—violence erupts.

A natural starting point is the assignment and enforcement of property

[11] Note, the philosophical underpinnings here are a combination of Thomas Hobbes and John Locke.

and land rights, as every economic transaction ultimately depends on their security. When households trust that their claims will be honored, they invest by planting orchards, draining marshes, and pledging titled plots as collateral; when they fear expropriation, incentives shift, and violence can become a rational strategy to seize or defend resources. Clearly defined and evenly enforced rights raise the opportunity cost of rebellion and reduce the potential gains from coercion, whereas ambiguous or exclusionary tenure lowers the threshold for force and fuels distributional grievances. Micro-level evidence supports these claims. For instance, randomized communal titling in Liberia reduced violent land disputes by approximately one-quarter within five years (Blattman et al., 2020). Conversely, overlapping customary and statutory claims in Uganda and Ghana intensified conflict as land values rose (Deininger and Castagnini, 2006; Goldstein and Udry, 2008).

Even with secure titles, communities remain vulnerable when local harvest failures or price shocks cannot be offset by inflows from other regions. In such settings, subsistence risk rises sharply while looting becomes easier, making violence a tempting response to scarcity. Market integration acts as a form of insurance: it lets grain, labour, and credit move from surplus to deficit areas, smoothing prices and softening grievances before they harden into conflict. Recent evidence pinpoints this price-volatility channel. In a panel of $5^{\circ} \times 5^{\circ}$ grid cells across Sub-Saharan Africa, Rohner et al. (2013a) show that negative rainfall shocks raise civil-war deaths only in inland districts; coastal districts that can quickly import cereals experience no such spike.

Finance pushes the logic of market insurance one step further by letting households smooth shocks across time as well as across space. Where savings accounts, working-capital loans, and crop insurance are available, a bad harvest need not translate into hunger or asset liquidation; people can borrow, draw down deposits, or roll over debt instead of turning to predation. Additionally, government-funded social insurance programs can complement these financial mechanisms by providing direct transfers and employment guarantees. Recent evidence shows that social insurance can reduce conflict. For instance, Fetzer (2020) finds that negative rainfall shocks increase Maoist violence in India, but only in districts where the public employment program

NREGA is poorly implemented. Where NREGA offers better coverage, these economic shocks do not lead to increased violence, suggesting the program acts as an effective buffer against the economic causes of conflict.

Yet even the best-designed rules and norms can unravel when powerful actors capture them. When elites control institutions such as land rights, credit systems, or taxation, they often create exclusionary economic arrangements that concentrate wealth and power. This concentration generates grievances among marginalized populations, increasing their incentives to rebel and lowering their opportunity costs of engaging in violence. Acemoglu et al. (2008) show how elites deploy their *de facto* power to preserve rent-extracting arrangements long after formal reforms. Under Argentina's 1976–83 dictatorship, union leaders in regime-connected firms were three times more likely to be "disappeared" than their peers, illustrating how selective repression secures economic privilege (Klor et al., 2021).

Economic institutions determine not only the overall level of income and growth but also critically shape how income is distributed. When elites monopolize economic rents through captured institutions, inequalities often become entrenched or worsen, fostering grievances that create conditions ripe for conflict. Ironically, secure but concentrated asset ownership can therefore have devastating effects on the functioning of democratic political institutions. This dynamic represents one of the central contradictions in capitalism and its discussion goes back to Marx, 1909, who observed that property relations (especially land) are historically constructed and then legally protected to benefit elites. Baland and Robinson (2008), for example, show how land owners used their power over workers to suppress votes for opposition parties in Chile before the introduction of the secret ballot.Falcone and Rosenberg (2025) show that the modernization of agriculture in Brazil led to an increase in land inequality which in turn pushed landless farmers and their political organizations toward conflict. The result was a policy that increased growth *and* armed conflict. We will return to this contradiction in Section 5.

The distributional dimension offers an important perspective for understanding how economic institutions may influence conflict dynamics. The empirical link between overall inequality and conflict remains ambiguous and contested: studies by Fearon and Laitin (2003) and Collier and Hoeffler (2004) identify limited or no direct association. In response to these findings, the literature has shifted toward analyzing inequality at the ethnic-group level. One strand of research emphasizes horizontal inequalities—disparities between culturally or ethnically defined groups—as drivers of resentment and violence, noting that both relatively disadvantaged and advantaged groups are more likely to engage in conflict under these conditions (Stewart, 2008; Cederman et al., 2011). Another strand emphasizes within-group inequality, proposing a different mechanism: large internal disparities facilitate conflict by lowering the opportunity cost of recruiting combatants from poorer segments, while simultaneously providing wealthier individuals with the financial means to fund rebellion. Consequently, within-group inequality emerges as a robust predictor of civil conflict. Nevertheless, the horizontal inequality literature has faced significant critiques, particularly from Esteban and Ray (2011) and Huber and Mayoral (2019), who question its explanatory power and underlying assumptions.

In sum, the evidence offers a coherent lesson. Economic institutions that spread opportunity and allocate rents predictably raise the returns to peaceful production, shrink the spoils of coercion, and cushion shocks. Where those institutions instead concentrate privilege or leave allocation discretionary, violence becomes a rational strategy for excluded groups and opportunistic elites. Designing effective reforms—whether in land titling, financial outreach, or fiscal transparency—therefore requires a careful tracing of these intertwined channels. Future climatic or technological shocks will spill into bloodshed only where economic rules allow the prizes of predation to eclipse the rewards of peace.

5 Policy Implications

Political institutions have an impact on the extent of armed violence. If we switch to a policy perspective, this immediately raises the question: can institutions be reformed? Does it make sense at all to think about the design of institutions as a policy? Or are existing institutions already largely part of a local equilibrium? Banerjee and Duflo (2014) argue that the core of this debate lies in differing beliefs about historical determinism. If history is deterministic, the potential for policy reform is limited and research merely serves our understanding of how the current state emerged; but if history is shaped by randomness, political economy can actively guide policy choices by exploring what is achievable at different moments. Banerjee and Duflo (2014) conclude that there is insufficient evidence to resolve this debate but that it is safer to operate under the assumption that political systems can be improved or worsened through deliberate design choices.

A first take-away of our overview is simply that institutions have direct and indirect effects on armed conflict. They can make countries, regions, cities or groups less prone to violence because they increase wages, regulate access to lootable resources, reduce the volatility of either the economy or state capacity, protect property rights, provide a commitment device for time-inconsistency problems or simply a resolution mechanism for existing grievances. Often several of these channels are active at the same time. Because institutions are difficult to reform and tend to persist over time, their ultimate impact hinges on how they shape the emergence of a new political or economic equilibrium.[12]

The research we reviewed shows that access to political power through institutions is a very direct and powerful regulator of violence. This is echoed by the landmark *Pathways to Peace* report (Nations and Bank (2018)), which stresses exclusion from access to power, opportunity, services, and security creates fertile ground for mobilizing group grievances into violence. Put differently, inclusion —in institutions, development policies, and provision of security and justice— is key to prevention. Additionally, political institutions that mitigate ethnic favoritism and regional inequalities significantly reduce violence by addressing underlying grievances and providing more equitable economic opportunities.

However, how to do this practically is not always clear. The evidence from

[12]Acemoglu (2010) makes the argument that this applies to development policies more generally.

community based RCTs is relatively thin and some results have been discouraging. Humphreys et al. (2019) examine the effectiveness of a Community Driven Reconstruction (CDR) program implemented in 1,250 villages in eastern Congo. This program aimed to instill democratic governance practices by involving communities in decision-making processes over a two-year period. To evaluate the program's impact, the researchers introduced a subsequent unconditional cash transfer project, distributing \$1,000 to 457 villages, both those that had participated in the CDR program and those that had not. The study found no significant differences between treatment and control villages, suggesting that short-term exposure to democratic procedures did not lead to lasting changes in local governance behaviors. While some other RCTs have produced more encouraging results, these findings illustrate a key challenge: political institutions are inherently difficult to reform through short-term interventions.

Power-sharing agreements are a key policy here as they typically target political exclusion directly. Svolik (2009) develops a model of authoritarian politics in which power sharing is complicated by commitment problems. Evidence comes from observational data (Mueller and Rohner (2018) and Mueller and Rauh (2024)) but these studies suggest that power-sharing institutions significantly reduce violence. Mueller and Rauh (2024) show in a cross-country study that the reduction in violence is large but only temporary in most cases. They hypothesize that longer-lasting transitions out of conflict require a change in the vertical relationships between elite and population. Their research points towards access to justice as a strong correlate of reductions in violence.

Research on ethnic identity and the role of the media demonstrates that the communication about policies and how they are perceived by organized groups can critically affect their effectiveness. The literature suggests leaders can play a critical role here. Policy makers need to embrace the idea that visible outcomes are the result of sophisticated bargains. While there is little quantitative work on this, there is a striking convergence on the idea that models treating observed outcomes as the product of (failed) negotiations are a useful way to approach the role of communication and identity (Francois et al. (2015) and Blattman (2023)). A recent policy report by Cheng et al. (2018) emphasizes the importance of elite bargains in transitions from conflict to peace, arguing that inclusive political settlements with credible guarantees are often more successful than externally imposed peace plans. Institutions should, therefore, include policies that foster transparent communication, counter propaganda effectively, and encourage balanced media to prevent leaders from mobilizing violence through manipulated identities and perceptions.

Several concrete policy interventions can help states break the cycle of violence low state capacity and economic decline. First, strengthening fiscal and administrative capabilities — by building effective tax systems, enhancing bureaucratic efficiency, and delivering public goods—reduces grievances, bolsters state legitimacy, and diminishes incentives for insurgency (Besley and Persson (2011a); Moore (2017);Weigel (2020)). Here is where policy elements that are typically not associated with conflict prevention and international organizations like the International Monetary Fund (IMF) can play a crucial role (Chami et al. (2021); Mueller et al. (2024)). Second, targeted investments in local infrastructure and service delivery, especially in conflict-affected regions, have been shown to significantly raise the opportunity cost of rebellion, reducing insurgent recruitment and levels of violence. Third, improving judicial capacity and legal accountability helps mitigate commitment problems by providing reliable enforcement of peace agreements and contracts, fostering political stability and conflict resolution (Fearon and Laitin (2003); North et al. (2009)). Finally, efforts to reduce dependence on natural resource rents-by diversifying revenue streams and strengthening domestic taxation institutions- can correct distorted political incentives, limiting elite capture and lowering conflict risk (Ross (2012)). Collectively, these policy recommendations highlight the critical role that strategic investments in state capacity play in breaking entrenched cycles of violence and institutional fragility, guiding fragile states toward sustained peace and stability. However, strengthening state capacity must be paired with inclusive accountability mechanisms to prevent state repression and mitigate risks of violence from narrowly accountable elites.

The importance of land can generate trade-offs for policy makers who want to promote economic growth as an emerging literature shows. Sonno (2024) shows that Foreign Direct Investment in Africa triggers conflict, with land-intensive investments identified as the main channel for this negative effect. This finding is confirmed by Falcone and Rosenberg (2025), who show that the expansion of commercial farming induced by a market-oriented reform and technological innovation increased land conflict since the mid-1990s. Remarkably, even development projects can be affected by this contradiction. McGuirk and Nunn (2024) show that projects on the African continent that targeted agricultural productivity had negative side-effects on violence where they interfered with the informal negotiations with herders.

A promising avenue for reducing conflict through economic institutions are initiatives that increase accountability and checks and balances. In their study on mining rents driving conflict Berman et al. (2017) find that transparency initiatives from multinational firms and local governments can reduce violence. Similarly, institutions that increase trade across groups could be used to build trust. Rohner et al. (2013b) show that after violent conflicts, communities tend to segregate economically (trading less with rival groups), which can entrench divisions and make future cooperation (and thus peaceful resource sharing) harder. Institutional interventions (like intergroup economic projects or truth and reconciliation processes) are needed to break this pattern so that groups prefer trade over plunder. A significant example comes from Jha (2013) who examines how medieval trade networks and the resulting local institutions in South Asia fostered interethnic complementarities, particularly between Hindus and Muslims. The research indicates that medieval trading ports, despite being more ethnically mixed, were significantly less prone to Hindu-Muslim riots between 1850 and 1950, and this trend continued between 1950 and 1995. Recent work has shown that the introduction of governance tools like government audits can have broad equilibrium effects on political institutions (J-PAL). Government audits and external anti-corruption watchdogs can establish checks and balances in institutional environments that do not lend themselves to larger political changes.

Establishing systems that make economies shock-resilient is a good way to prevent violence. Fetzer (2020) exploits the phased rollout of India's National Rural Employment Guarantee Act (NREGA) —a nationwide workfare program guaranteeing 100 days of low-skill employment— and its interaction with weather shocks. He finds that districts with the workfare program saw significantly lower conflict intensity following adverse weather, implying a "pacifying effect" of the safety net. By buffering incomes, NREGA reduced grievances that fuel civil unrest, an impact measured using panel data on conflict incidents across India. This natural experiment suggests that robust safety nets can mitigate violence arising from economic hardship. However, details matter. As discussed earlier transfers of all sorts also represent lootable resources leading to a danger of rapacity effects (Nunn and Qian (2014); Rohner (2024)).

Moreover, many of the mechanisms discussed in this review are not isolated. Rather, their effects depend critically on how institutions interact. The relationship between political institutions, economic incentives, and administrative capacity is often mutually reinforcing. Table 1 summarizes some key cross-institutional interactions and the channels through which they affect the risk and intensity of armed conflict. Understanding these interactions is essential for designing effective policy interventions.

As mentioned in the introduction, it is important to stress that there are complementarities with other factors beyond the scope of this review. For instance, a growing literature examines the role of the international context and cultural norms in strengthening political institutions and state capacity. Persson and Tabellini (2009), for example, emphasize cross-country spillovers that help reinforce democratic institutions. Both the stability and instability of political institutions can, to some extent, be shaped by international alliances formed along institutional lines. Alesina and Giuliano (2015) investigate how cultural values—such as trust, individualism, and family structure—interact with institutional development. They argue that cultural traits are deeply rooted, evolve slowly, and strongly influence the emergence and functioning of institutions. At the same time, institutions can shape cultural attitudes, suggesting a dynamic co-evolution between

Table 1: Cross-Institutional Interactions and Conflict Pathways

Mechanism	Interaction	Conflict Effect	Policy Implications
Strong states without accountability may repress more	state capacity × political institutions	reduces short-run disorder but increases long-term instability	combine state-building with inclusive institutions and safeguards against abuse
Democratic institutions constrain (ethnic) favoritism in public spending	state capacity × political institutions	reduces rent-seeking and inequality-driven violence	use democratic reforms to regulate distributional policies (e.g. roads, jobs, revenues)
Access to justice and recruiting into bureaucracy can help political inclusion	state capacity × political institutions	reduces violence due to grievance and commitment failure	strengthen legal access, depoliticize courts and recruitment to bureaucracy
Independent government audit units change political incentives	state capacity × political institutions	decrease violence through commitment power and accountability	introduce/strengthen independent audit and anti-corruption units
Secure property rights strengthen fiscal capacity	economic institutions × state capacity	lowers incentives for predation; increases ability to spend	pair land registries with improved fiscal extraction and bureaucratic oversight
effective provision of services builds legitimacy for taxation	legal capacity × fiscal capacity	reduces conflict, especially in underserved regions	expand local public services when revising tax system; build presence in periphery

culture and governance. The literature also acknowledges that state capacity is embedded in a broader context that includes cultural norms and attitudes toward the state Besley (2020); Besley and Mueller (2021)). The enforcement of taxes, for example, depends on cultural norms that support compliance. This interplay must be considered when designing policy: investing in state capacity is not merely a technical matter, but also a cultural and social one.

6 Open Research Agenda: Institutions and Conflict Prevention

The preceding sections have synthesized an extensive literature showing how institutions influence the incidence, duration, and recurrence of armed conflict. However, while the empirical and theoretical groundwork is strong, there remain several open questions with high policy relevance. This section outlines a research agenda for scholars and institutions aiming to improve our understanding of how political, economic, and administrative institutions can be leveraged for peacebuilding.

6.1 Four Priority Areas for Future Research

We highlight four areas of focus that should guide the next wave of empirical and theoretical work:

1. Political Institutions that Constrain and Share Power. As the literature emphasizes, inclusive and transparent institutions reduce the risk of conflict by mitigating grievances and enabling peaceful negotiation. Yet, more work is needed on the micro-foundations of these effects. How do different institutional forms (e.g., proportional representation, federalism, judicial independence) influence elite behavior and intergroup trust? Where are power-sharing arrangements most effective, and under what conditions do they collapse? Can local, short-run democratic interventions produce lasting institutional change?

2. Enhancing State Capacity in Fragile Environments. While research has documented the benefits of fiscal and administrative capacity for peace and stability, key implementation questions remain. What are the most effective ways to expand taxation systems and public good delivery in regions with contested authority or low legitimacy? What sequencing of reforms avoids elite capture or backlash? Recent studies show how non-state actors replicate governance functions — how can formal institutions displace these without destabilizing fragile order?

3. Economic Institutions and Inclusive Development. Economic inequality and exclusion are recurring drivers of violence. Future research must clarify how economic institutions (e.g., land rights, labor regulation, public procurement) can both foster inclusive growth and prevent capture by elites. How do economic shocks interact with pre-existing institutional configurations to generate violence? How can international actors — e.g., the IMF or World Bank—design aid and lending to reinforce rather than weaken local institutions? Further study of land reform, FDI safeguards, and transparency in rent distribution is critical.

4. Methodological Innovation in Measurement and Causal Inference. Finally, methodological advances are needed to credibly evaluate the impact of institutions in complex, often non-experimental settings. The growing availability of textual data (e.g., parliamentary debates, public communications, media coverage) enables the use of Natural Language Processing (NLP) methods for institutional monitoring. Sentiment analysis and topic modeling can shed light on elite discourse and public grievances. Complementarily, causal inference methods — e.g., synthetic control, instrumental variables, and regression discontinuity — must be tailored to contexts where RCTs are infeasible. Innovations here can guide scalable evaluations of institutional reforms.

6.2 Bridging the Gap between Evidence and Policy

This agenda calls for interdisciplinary and collaborative approaches. Qualitative political economy and ethnographic research can help contextualize econometric results and design interventions that are sensitive to local power dynamics. Partnerships with local governments, civil society, and international actors are essential to ensure that research informs actionable policy. Finally, funding structures and peer review processes should reward research that speaks to the complexity of state fragility and institutional transformation.

In short, institutions are both a site and a tool of conflict resolution. They mediate power, shape incentives, and ultimately determine whether societies resolve grievances through negotiation or violence. Closing the gap between knowledge and action in this domain will be key to preventing the next generation of violent conflict.

7 Concluding Remarks

For decades, global institutional quality has shown steady, if uneven, improvement, underpinning significant advances in peace, governance, and prosperity worldwide. However, recent trends signal an alarming reversal, with democratic backsliding, weakening checks and balances, and declining state effectiveness documented across numerous regions (Lührmann et al., 2022 and V-Dem Institute, 2023). This erosion of institutions threatens to unravel past gains and heightens risks of political instability, violence, and conflict recurrence.

The analysis presented in this survey underscores why these developments are a cause for significant concern. Institutions are fundamental determinants of how societies manage grievances, mediate competing interests, and provide the essential public goods—security, infrastructure, healthcare, and education—necessary to maintain social peace. When institutions deteriorate, states become less able to enforce credible commitments, contain violence, or prevent insurgencies, perpetuating cycles of fragility and instability.

Given the current troubling institutional trajectory, there is an urgent need for renewed scholarship and focused policy interventions. The research agenda outlined here—prioritizing inclusive governance structures, robust fiscal and legal institutions, equitable economic policies, and methodological innovation—offers pathways to reverse these damaging trends. By investing in rigorous, context-sensitive research and translating these insights into effective interventions, policymakers and scholars can collaboratively address the complex institutional challenges underpinning contemporary conflict dynamics.

In short, institutions are at once a critical safeguard against and a potential accelerator of conflict. As global institutional quality deteriorates, now is the crucial moment to redouble efforts toward understanding institutional drivers of peace and harnessing these insights to design and implement strategies that prevent conflict before it arises. The stakes have seldom been higher, but neither has the potential for meaningful action.

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