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Affective Political Alignment and the Development of State Capacity

LEONEL MUINELO-GALLO*

Resumen

La capacidad estatal resulta fundamental para el desarrollo económico y una gobernanza efectiva; sin embargo, en la literatura especializada aún no se comprenden lo suficiente los fundamentos políticos de su acumulación a largo plazo. Este artículo desarrolla un marco de análisis dinámico de economía política en el que la alineación política afectiva (APA) debilita los beneficios políticos derivados del desempeño del gobierno. A medida que el apoyo político se vuelve menos sensible al desempeño, los gobiernos tienen menores incentivos para realizar inversiones costosas en la capacidad del Estado, cuyos beneficios políticos e institucionales solo se materializan gradualmente. De hecho, esto conduce a una subinversión persistente en esta capacidad estatal. Este argumento teórico se prueba empíricamente utilizando un panel anual no balanceado de 81 países durante el período 2000 a 2023. Tanto en las especificaciones de efectos fijos como en las de System-GMM en dos etapas, una mayor APA se asocia con una menor capacidad estatal agregada posterior, y los efectos más consistentes se concentran en la capacidad administrativa y legal. La evidencia sobre la capacidad extractiva es menos consistente entre los estimadores y las muestras. Por su parte, las proyecciones locales aplicadas al panel aportan evidencia empírica adicional sobre el mecanismo a largo plazo: los aumentos en la APA van acompañados de descensos persistentes en la capacidades administrativa y legal, en lugar de un deterioro institucional inmediato. En conjunto, la evidencia empírica sugiere que la política afectiva no se asocia principalmente con el desmantelamiento de las instituciones estatales existentes, sino más bien con incentivos más débiles para desarrollar las capacidades administrativas y legales necesarias para que un gobierno consolide un sistema de gobernanza eficaz, predecible y duradero.

Palabras clave

Capacidad del Estado; Alineación política afectiva; Economía política; Instituciones.

Clasificación JEL

D72; H11; O43

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Abstract

State capacity is fundamental to economic development and effective governance; however, the political foundations of its long-term accumulation are not yet sufficiently understood. This article develops a dynamic political economy framework in which affective political alignment (APA) weakens the political benefits derived from government performance. As political support becomes less responsive to performance, governments have fewer incentives to make costly investments in state capacity, the political and institutional benefits of which only materialise gradually, leading to persistent underinvestment. This argument is tested using an unbalanced annual panel of 81 countries over the period 2000-2023. In both fixed-effects and two-step System-GMM specifications, higher APA is associated with lower subsequent aggregate state capacity, with the most consistent effects concentrated in administrative and legal capacity. The evidence on extractive capacity is less consistent across estimators and samples, whilst the measure captures only one component of the broader capacity for resource mobilisation. The Panel's local projections, meanwhile, provide further evidence regarding the long-term mechanism: increases in the APA are accompanied by persistent declines in aggregate administrative and legal capacity, rather than an immediate institutional deterioration. The article contributes to the analysis of the temporal evolution of state capacity by linking the affective structure of political competition to the incentives governing long-term institutional investment. Taken together, the evidence suggests that affective politics is not primarily associated with the dismantling of existing state institutions, but rather with weaker incentives to build up the administrative and legal capacities necessary for a government to consolidate an effective, predictable and durable system of governance.

Keywords

State capacity; Affective political alignment; Political economy; Institutions.

JEL Classification

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Affective Political Alignment and the Development of State Capacity

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Resumen

La capacidad estatal resulta fundamental para el desarrollo económico y una gobernanza efectiva; sin embargo, aún no se comprenden lo suficiente los fundamentos políticos de su acumulación a largo plazo. Este artículo desarrolla un marco de análisis dinámico de economía política en el que la alineación política afectiva (APA) debilita los beneficios políticos derivados del desempeño del gobierno. A medida que el apoyo político se vuelve menos sensible al desempeño, los gobiernos tienen menores incentivos para realizar inversiones costosas en la capacidad del Estado, cuyos beneficios políticos e institucionales solo se materializan gradualmente. De hecho, esto conduce a una subinversión persistente en esta capacidad estatal. Este argumento teórico se prueba empíricamente utilizando un panel anual no balanceado de 81 países durante el período 2000 a 2023. Tanto en las especificaciones de efectos fijos como en las de System-GMM en dos etapas, una mayor APA se asocia con una menor capacidad estatal agregada posterior, y los efectos más consistentes se concentran en la capacidad administrativa y legal. La evidencia sobre la capacidad extractiva es menos consistente entre los estimadores y las muestras. Por su parte, las proyecciones locales aplicadas al panel aportan evidencia empírica adicional sobre el mecanismo a largo plazo: los aumentos en la APA van acompañados de descensos persistentes en la capacidades administrativa y legal, en lugar de un deterioro institucional inmediato. En conjunto, la evidencia empírica sugiere que la política afectiva no se asocia principalmente con el desmantelamiento de las instituciones estatales existentes, sino más bien con incentivos más débiles para desarrollar las capacidades administrativas y legales necesarias para que un gobierno consolide un sistema de gobernanza eficaz, predecible y duradero.

Palabras clave: *Capacidad del Estado; Alineación política afectiva; Rendición de cuentas política; Economía política; Instituciones.*

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Abstract

State capacity is fundamental to economic development and effective governance; however, the political foundations of its long-term accumulation are not yet sufficiently understood. This article develops a dynamic political economy framework in which affective political alignment (APA) weakens the political benefits derived from government performance. As political support becomes less responsive to performance, governments have fewer incentives to make costly investments in state capacity, the political and institutional benefits of which only materialise gradually, leading to persistent underinvestment. This argument is tested using an unbalanced annual panel of 81 countries over the period 2000-2023. In both fixed-effects and two-step System-GMM specifications, higher APA is associated with lower subsequent aggregate state capacity, with the most consistent effects concentrated in administrative and legal capacity. The evidence on extractive capacity is less consistent across estimators and samples, whilst the measure captures only one component of the broader capacity for resource mobilisation. The Panel's local projections, meanwhile, provide further evidence regarding the long-term mechanism: increases in the APA are accompanied by persistent declines in aggregate administrative and legal capacity, rather than an immediate institutional deterioration. The article contributes to the analysis of the temporal evolution of state capacity by linking the affective structure of political competition to the incentives governing long-term institutional investment. Taken together, the evidence suggests that affective politics is not primarily associated with the dismantling of existing state institutions, but rather with weaker incentives to build up the administrative and legal capacities necessary for a government to consolidate an effective, predictable and durable system of governance.

Keywords: State capacity; Affective political alignment; Political accountability; Political economy; Institutions.

JEL Classification: D72; H11; O43.

1. Introduction

State capacity is a fundamental determinant of economic development, effective governance, and institutional resilience. Strong state capacity enables governments to provide public goods, enforce rules, mobilise fiscal resources, and implement effective public policies (Evans, 1995; Besley & Persson, 2011; Dincecco & Katz, 2016). Yet state capacity is not a fixed institutional endowment. It is an accumulated stock that requires sustained political and organisational investment, while many of the returns to such investment materialise only gradually (Fukuyama, 2013; Williams, 2021; Queralt, 2025). This raises a central question: how does the structure of political competition shape governments' incentives to invest in institutions whose returns extend beyond the short term?

The structure of political conflict provides an important into the answer. Political accountability theories imply that governments have stronger incentives to perform when political support is responsive to governmental performance (Besley & Case, 1995; Persson & Tabellini, 2000; Besley & Persson, 2011). Under performance-based accountability and improvements in state capacity can generate political returns because better government performance increases the prospects of continued political support. However, these incentives change when political support becomes increasingly structured by social identities, political divisions, and antagonism rather than by government performance. In this sense, an increasing amount of literature documents the importance of affective and identity-based divisions in shaping political attitudes and behaviour (Mason, 2018; Iyengar et al., 2019; Wagner, 2021; Druckman et al., 2024). When political competition becomes organised along these lines, political support may become less responsive to changes in government performance. Political actors may therefore face weaker incentives to undertake investments whose benefits emerge only over longer horizons. The resulting process need not involve deliberate institutional dismantling. Instead, weaker incentives to invest can generate persistent institutional underinvestment, gradually reducing the accumulation of state capacity.

This paper formalises this argument in a dynamic political-economy framework in which Affective Political Alignment (APA) weakens the responsiveness of political support to government performance. The APA is measured as a structural, country-year characteristic of political environments marked by weaker programmatic linkages, greater social polarisation, and stronger antagonism between political camps. It is therefore

distinct from individual-level affective voting, partisan hostility, or emotional attachment, and is not restricted to democratic or electoral settings.

The perspective put forward suggests that a higher APA reduces the political returns on future improvements in state capacity and, consequently, diminishes optimal institutional investment. Since state capacity is an accumulated stock, persistent investment deficits lead to cumulative differences in institutional capacity over time. This mechanism differs from explanations centred on deliberate institutional dismantling or democratic backsliding (Bermeo, 2016; Levitsky & Ziblatt, 2018). Institutional deterioration does not necessarily require an explicit attempt to weaken existing institutions. The repeated postponement, reduction or reorientation of investment can gradually erode administrative and legal capacities, whilst their formal structures remain intact. The approach thus shifts the focus from the political destruction of institutions to the political incentives governing their accumulation.

Moreover, the perspective set out here further implies that the relationship need not be uniform across dimensions of state capacity. Administrative, legal and extractive capacity perform distinct functions and depend on different organisational and political processes (Hanson & Sigman, 2021; Suryanarayan, 2024). Administrative capacity supports policy formulation and implementation; legal capacity supports the establishment and enforcement of predictable rules; and extractive capacity enables the mobilisation of fiscal resources. A common accountability channel may therefore produce heterogeneous institutional consequences across these dimensions.

These theoretical implications are examined using an unbalanced annual panel of 81 countries over 2000-2023. The empirical strategy combines static and dynamic fixed-effects estimators, two-step System-GMM, and panel Local Projections to examine both the relationship between APA and subsequent state capacity and its dynamic temporal evolution. The analysis considers aggregate state capacity as well as administrative, legal, and extractive capacity, while allowing countries to move across different political-regime environments during the sample period.

The results support the central theoretical argument. A higher APA index is associated with lower subsequent aggregate state capacity across all main panel specifications, with the most consistent relationships observed in administrative and legal capacity. These results are consistent with the framework's emphasis on institutional capacities whose

political benefits accrue over longer time horizons. The evidence on extractive capacity is less consistent across estimators and samples. However, this latter finding should be interpreted with caution, as the measure captures tax revenue relative to GDP and therefore represents only one dimension of the state's broader capacity to mobilise resources.

The local panel projections also reveal persistent negative responses in aggregate, administrative and legal capacity following increases in the APA index, which is consistent with the gradual accumulation of institutional effects implied by the theoretical model. Furthermore, the dimension-specific results provide further insight into the political-economy process. The negative association with administrative capacity is consistent with weaker incentives to sustain effective bureaucracies, control corruption, and implement public policies. The corresponding relationship with legal capacity is consistent with weaker incentives to develop and maintain regulatory and enforcement institutions that provide stable and predictable rules. The absence of a consistently estimated relationship for the extractive measure should not be interpreted as evidence that affective alignment has no implications for fiscal capacity, given the limited scope of the proxy. Taken together, the results are consistent with selective institutional underinvestment, concentrated in the administrative and legal foundations of state capacity rather than uniformly affecting all dimensions.

Considering this context, this article makes three contributions. Firstly, it introduces the affective structuring of political conflict into the political economy of state capacity accumulation, identifying a channel through which changes in the structure of political competition can alter incentives for institutional investment. Secondly, it extends the study of affective politics beyond political attitudes, behaviour and intergroup conflict to examine its implications for the evolution of state institutions. Thirdly, it develops and tests a mechanism of political accountability that links affective political alignment to long-term institutional investment: when political support becomes less sensitive to government performance, the political returns on investments whose benefits accumulate over time decline. In this way, the analysis connects the literature on state capacity, political accountability and affective political alignment through a common framework that links political conflict with institutional accumulation.

The remainder of the paper is organised as follows. Section 2 reviews the related literatures and develops the conceptual motivation. Section 3 presents the dynamic

political-economy model and derives the theoretical implications. Section 4 develops the empirical specification and identification strategy. Section 5 describes the data and measurement. Section 6 presents the main empirical results, including the panel estimates and Local Projections and Section 7 concludes.

2. Related Literature and Conceptual Motivation

The analysis presented here connects three strands of the economic and politics literature: state capacity, political accountability and affective political alignment. Although these strands of literature have largely developed separately, they share a concern with how political incentives shape government decisions. However, a significant gap in this literature is how changes in the political environment alter the long-term political benefits of institutional investment and, consequently, governments' incentives to build state capacity.

2.1 State Capacity as a Dynamic Institutional Asset

The state capacity refers to governments' ability to formulate and implement public policies, enforce rules, mobilise fiscal resources, and provide public goods (Evans, 1995; Besley & Persson, 2011; Hanson & Sigman, 2021). Classical accounts emphasise state formation, warfare, fiscal extraction, and the consolidation of political authority (Mann, 1984; North, 1990; Tilly, 1990), whereas more recent political economy highlights political institutions, organisational structures, and forward-looking investment as determinants of institutional capacity (Besley & Persson, 2009 and 2011; Fukuyama, 2013; Williams, 2021).

An important implication of this literature is that state capacity is a multidimensional and dynamic institutional asset. Administrative capacity concerns the ability of public organisations to formulate and implement public policies; legal capacity concerns rule enforcement, regulatory quality, and institutional predictability; and extractive capacity concerns the mobilisation of fiscal resources. These dimensions may evolve differently because they depend on distinct organisational structures and different political constraints (Hanson & Sigman, 2021; Suryanarayan, 2024). This perspective shifts attention from the historical origins of state capacity towards the incentives governing its

continued accumulation and maintenance. Institutional capabilities require resources, organisational effort, and continuous adaptation, while their benefits may materialise only gradually. State capacity is therefore both an institutional stock and an object of political choice.

The political economy literature has established that political conflict and institutional incentives shape investment in state capacity (Besley & Persson, 2009, 2011; Dincecco, 2015). However, less attention has been devoted to how changes in the political environment affect incentives to maintain and improve existing institutional stocks. The institutional deterioration need not reflect an explicit attempt to dismantle public institutions. Because organisations and institutional routines can continue operating in the short run, insufficient investment may instead generate gradual deterioration as maintenance and improvement fall below the level required to sustain the institutional stock.

2.2 Political Accountability and Long-Horizon Investment

A second strand of research emphasises political accountability as a determinant of government incentives. Political economy models generally assume that political support depends, at least partly, on government performance (Besley & Case, 1995; Persson & Tabellini, 2000; Ashworth, 2012; Ashworth & Bueno de Mesquita, 2014). When the political support is performance-based, policies that improve public outcomes generate both social and political returns, strengthening incentives to invest in policies and institutions whose benefits accrue over time.

This mechanism is particularly relevant to institutional investment because improvements in administrative effectiveness, legal enforcement, regulatory quality, and fiscal management often involve present costs while only gradually producing benefits. When political support is responsive to future performance, governments can internalise part of these benefits: improved future performance increases the political value of institutional investment. Conversely, when support becomes less responsive to performance, its political return declines, even if its social return remains unchanged. Governments may consequently have stronger incentives to favour policies generating more immediate or politically salient benefits.

The distinction between social and political returns is central to the accountability

mechanism developed here. The argument does not require governments to disregard the social value of state capacity. Rather, it implies that incentives to invest depend on whether improvements in future government performance translate into political support. A reduction in this responsiveness can therefore generate institutional underinvestment without any direct preference for weaker institutions.

2.3 Affective Political Alignment and the Structure of Political Conflict

A third strand of research examines the role of political identities and affective divisions. Affective polarisation concerns the social and emotional distance between political groups and differs from ideological polarisation, which primarily captures disagreement over policy positions (Iyengar et al., 2012; Druckman & Levendusky, 2019). Research shows that affective divisions influence political participation, evaluations of political leaders, perceptions of political opponents, political trust, and willingness to compromise (Abramowitz & Webster, 2016; Mason, 2018; Iyengar et al., 2019). They may also affect how political actors and citizens process information about government performance: governments aligned with salient political identities may receive greater tolerance for poor performance, while opposing governments may receive less credit for competent performance.

The present analysis extends this insight from political behaviour to institutional investment. Here, Affective Political Alignment (APA) is interpreted as a structural, country-year characteristic of the political environment rather than as an individual-level measure of affective behaviour. It captures environments characterised by weaker programmatic political linkages, greater social polarisation, and stronger antagonism between political camps. The relevant implication is not that affective alignment eliminates political accountability, but that it can weaken the responsiveness of political support to government performance. Importantly, this mechanism is not confined to a particular regime type. The Affective Political Alignment does not necessarily imply the absence of elections, opposition, or formal accountability institutions, nor does it require democratic breakdown or authoritarian repression. The relevant change is in the extent to which political support responds to government performance. This makes APA applicable to political environments that differ substantially in their formal institutional arrangements.

To summarise, the three strands of literature analysed highlight a common mechanism. State capacity is a cumulative institutional asset that requires continuous investment; political accountability can generate benefits through improved future performance; and affective political alignment can weaken the link between performance and political support. The proposed mechanism follows directly from this. When political support continues to respond to government performance, investment in state capacity generates future political benefits. As political conflict becomes increasingly structured around identities and antagonisms, these benefits are eroded, thus reducing the incentives for long-term institutional investment. Therefore, APA need not entail deliberate institutional dismantling. By repeatedly reducing incentives for investment, it can gradually alter the trajectory of an accumulated institutional legacy, with effects emerging over time rather than simultaneously. The framework also predicts heterogeneous effects across the various dimensions of state capacity. Administrative and legal capacity often requires investments whose benefits are gradual and difficult to attribute to current governments, which means that their political benefits depend particularly on performance-based accountability. Extractive capacity can generate more immediate and observable fiscal benefits. Consequently, differences in the timing and visibility of institutional benefits mean that the APA (does not necessarily) need not affect all dimensions of state capacity in the same way.

3. Political Accountability and the Dynamics of State Capacity

This section develops a parsimonious dynamic political economy model that formalizes the mechanism linking affective political alignment (APA) to institutional investment and, ultimately, to state capacity. The purpose of the model is not to provide a comprehensive theory of state formation, but to isolate the political mechanism that generates the empirical predictions tested below. In particular, the model shows how a higher degree of APA can reduce the political return to investments in state capacity, thereby lowering optimal institutional investment and generating persistent effects on the stock of state capacity.

The framework is deliberately agnostic about the type of political regime. The political return to state capacity may arise from performance-based in democratic regimes, but also from political survival, elite support, legitimacy, or other forms of performance-based

political support in non-democratic regimes. Thus, the mechanism does not require a particular institutional regime and is compatible with countries moving between regime types over time.

3.1 The government's investment problem

Time is discrete, $t = 0, 1, 2, \dots$. The government allocates a fixed budget between current government expenditure, denoted by G_t , and investment in state capacity, I_t . In this context, the public budget constraint is:

$$G_t + I_t = B_t \quad 0 \leq I_t \leq B_t \quad (1)$$

where $B_t > 0$ denotes the resources available to the government in period t . Current government expenditure, G_t , generates contemporaneous political benefits through a strictly increasing and concave utility function $u(G_t)$, satisfying:

$$u'(G) > 0 \quad u''(G) < 0$$

The investment (I_t), in contrast, contributes to the future stock of state capacity.

Let S_t denote the aggregate stock of state capacity. Its temporal evolution is given by:

$$S_{t+1} = (1 - \delta)S_t + I_t \quad 0 < \delta < 1 \quad (2)$$

where δ is the depreciation rate of state capacity. The equation (2) captures the fact that state capacity is an accumulated institutional stock: investment today affects the productive and political capacity of the state in subsequent periods.

The political return to future state capacity depends on both the stock of state capacity and the prevailing degree of affective political alignment. Let P_t denote APA. Therefore, the political return, R , associated with state capacity is:

$$R(S_{t+1}, P_t) = \Omega(P_t)F(S_{t+1}) \quad (3)$$

where:

$$\Omega(P) > 0 \quad \Omega'(P) < 0$$

and,

$$F'(S) > 0 \quad F''(S) < 0$$

The function $F(S)$ captures the political value of state capacity. Higher state capacity

increases the government's political return, but at a diminishing rate. The function $\Omega(P)$ captures the extent to which future state performance translates into political returns. The key assumption $\Omega'(P) < 0$ implies that greater affective political alignment weakens the political return to improvements in state capacity.

This formulation does not imply that APA mechanically reduces the objective value of state capacity itself. Rather, it implies that when the political environment becomes increasingly organized around affective or identity-based alignment, improvements in institutional performance generate a smaller political payoff for the incumbent government. This is the mechanism through which political incentives affect institutional investment. The interaction between political alignment and state capacity is therefore negative:

$$R_{SP}(S, P) = \Omega'(P)F'(S) < 0$$

Thus, a higher APA reduces the marginal political return to an additional unit of state capacity.

3.2 Optimal institutional investment

The government chooses investment considering both its contemporaneous opportunity cost and the future political return generated by state capacity. Its problem can be written as:

$$\max_{\{I_t\}_{t=0}^{\infty}} \sum_{t=0}^{\infty} \beta^t [u(B_t - I_t) + \beta \Omega(P_t)F(S_{t+1})] \quad 0 < \beta < 1 \quad (4)$$

subject to the state-capacity accumulation of equation (2).

The parameter β captures the government's discount factor. The first term in the objective function represents the contemporaneous political value of current expenditure, while the second term captures the discounted political return associated with future state capacity.

Substituting the accumulation equation (2) into the government's objective, the first-order condition for an interior optimum is:

$$u'(B_t - I_t) = \beta \Omega(P_t)F'((1 - \delta)S_t + I_t) \quad (5)$$

The left-hand side is the marginal opportunity cost of investment in terms of forgone current expenditure. The right-hand side is the discounted marginal political return to investment through its contribution to future state capacity. Thus, the equation (5)

represents a central mechanism. A higher level of affective political alignment lowers $\Omega(P_t)$ and therefore reduces the political return to investment in state capacity.

3.3 The effect of affective political alignment on investment

To derive the comparative-static effect of APA on optimal investment, define:

$$\mathcal{F}(I_t, S_t, P_t) = u'(B_t - I_t) - \beta\Omega(P_t)F'((1 - \delta)S_t + I_t)$$

The first-order condition is therefore $\mathcal{F}(I_t^*, S_t, P_t) = 0$. By the implicit function theorem:

$$\frac{\partial I_t^*}{\partial P_t} = -\frac{\mathcal{F}_P}{\mathcal{F}_I}$$

The partial derivative with respect to APA is:

$$\mathcal{F}_P = -\beta\Omega'(P_t)F'(S_{t+1}) > 0$$

because $\Omega'(P_t) < 0$ and $F'(S_{t+1}) > 0$.

The derivative with respect to investment is:

$$\mathcal{F}_I = -u''(B_t - I_t) - \beta\Omega(P_t)F''(S_{t+1}) > 0$$

because $u'' < 0$, $F'' < 0$, and $\Omega(P) > 0$. It follows immediately that:

$$\frac{\partial I_t^*}{\partial P_t} < 0 \tag{6}$$

Hence, higher affective political alignment reduces optimal investment in state capacity. This result follows from the interaction between the opportunity cost of investment and its political return. Investment requires the government to forego current expenditure, while its benefits materialize through future state capacity. In this sense, when APA reduces the political return to future institutional performance, the government has weaker incentives to incur this intertemporal cost.

3.4 State capacity and dynamic persistence

Because state capacity is an accumulated stock, the investment response generated by APA translates directly into a subsequent change in state capacity. From equation (2):

$$\frac{\partial S_{t+1}}{\partial P_t} = \frac{\partial I_t^*}{\partial P_t} < 0 \tag{7}$$

Thus, a higher level of APA reduces the next-period stock of state capacity through its

effect on investment. The stock nature of state capacity also implies that an initial reduction in investment can propagate into subsequent periods.

To make prior distinction precise, consider the mechanical propagation of the initial investment response through the accumulation equation, abstracting from subsequent changes in APA and from additional endogenous responses of future investment. For $h \geq 1$:

$$\frac{\partial S_{t+h}}{\partial P_t} = (1 - \delta)^{h-1} \frac{\partial I_t^*}{\partial P_t} \quad (8)$$

Since $0 < 1 - \delta < 1$ and $\partial I_t^* / \partial P_t < 0$, the propagated effect remains negative:

$$\frac{\partial S_{t+h}}{\partial P_t} < 0 \quad h \geq 1 \quad (9)$$

The equation (9) should be interpreted as the mechanical propagation of the initial investment response rather than as the complete total derivative of future state capacity. In a fully forward-looking environment, subsequent investment decisions may themselves respond to the lower stock of state capacity, generating additional policy feedback. Such feedback can reinforce or modify the magnitude of the dynamic effect, but it does not alter the central prediction that a reduction in initial institutional investment produces persistent effects because state capacity accumulates gradually and depreciates only over time.

3.5 Affective political alignment and institutional investment

Proposition 1. Under $u' > 0$, $u'' < 0$, $F' > 0$, $F'' < 0$, $\Omega > 0$, and $\Omega' < 0$, an increase in affective political alignment reduces optimal institutional investment:

$$\frac{\partial I_t^*}{\partial P_t} < 0$$

The proof follows directly from the implicit function theorem applied to the government's first-order condition (equation 5).

3.6 Affective political alignment and the dynamics of state capacity

Proposition 2. An increase in affective political alignment reduces subsequent state capacity. Because state capacity is an accumulated stock, the effect of the initial investment response propagates over time and remains negative, subject to the persistence

generated by the accumulation process.

3.7 Heterogeneity across dimensions of state capacity

Proposition 3. Higher affective political alignment reduces optimal investment in each dimension of state capacity. However, the magnitude and persistence of the resulting effects may differ across administrative, legal, and extractive capacity because these dimensions can differ in their depreciation rates, marginal returns, and political responsiveness.

The state capacity is multidimensional. Let $j \in \{A, L, E\}$ where A , L , and E denote administrative, legal, and extractive capacities, respectively. For each dimension, state capacity evolves according to:

$$S_{j,t+1} = (1 - \delta_j)S_{jt} + I_{jt} \quad 0 < \delta_j < 1 \quad (10)$$

And the, the political return associated with each institutional dimension is:

$$R_j(S_{j,t+1}, P_t) = \Omega_j(P_t)F_j(S_{j,t+1})$$

where:

$$\Omega_j(P) > 0 \quad \Omega'_j(P) < 0$$

and,

$$F'_j(S_j) > 0 \quad F''_j(S_j) < 0$$

The corresponding first-order condition has the same structure as Equation (5). Therefore,

$$\frac{\partial I_{jt}^*}{\partial P_t} < 0 \quad j \in \{A, L, E\}$$

The dynamic propagation of the initial investment response is consequently:

$$\frac{\partial S_{j,t+h}}{\partial P_t} = (1 - \delta_j)^{h-1} \frac{\partial I_{jt}^*}{\partial P_t}$$

In this sense, the model therefore predicts a common negative direction across dimensions, but it does not impose that the magnitude of the effect must be identical across administrative, legal, and extractive capacity. Differences may arise from variation in depreciation rates, the marginal productivity of investment, the political return to institutional performance, and the degree to which improvements in each dimension translate into political benefits. This deliberately weak form of heterogeneity is useful

empirically. The theory predicts that higher APA should reduce investment incentives across dimensions, while allowing the strength and persistence of the resulting state-capacity effects to differ.

3.8 Testable implications

The model developed leads to three empirical predictions to be tested:

Prediction 1: Institutional investment. Higher affective political alignment reduces the government's optimal investment in state capacity:

$$\frac{\partial I_t^*}{\partial P_t} < 0$$

Prediction 2: Dynamic state capacity. Since institutional investment contributes to an accumulated stock, higher APA should be associated with lower subsequent state capacity, with effects that can persist over multiple periods:

$$\frac{\partial S_{t+h}}{\partial P_t} < 0 \quad h \geq 1$$

Prediction 3: Heterogeneity across institutional dimensions. The negative effect of APA (is not necessarily) need not be identical across administrative, legal, and extractive capacity. Differences in institutional depreciation, political returns, and adjustment processes can generate heterogeneous magnitudes and persistence across dimensions.

4. From Theory to the Empirical Analysis

4.1 Panel data empirical specification

The theoretical model of section 3 provides a direct mapping from political incentives to institutional accumulation. Substituting the optimal investment rule into the accumulation equation yields the reduced-form relationship:

$$SCI_{it} = c + \alpha SCI_{i,t-1} + \gamma APA_{i,t-1} + X'_{i,t-1}\beta + \mu_i + \lambda_t + \varepsilon_{it} \quad (11)$$

where μ_i captures country fixed effects, accounting for all time-invariant country-specific characteristics, while, λ_t denotes year fixed effects that control for common shocks over time. The constant term and c is absorbed by the fixed-effects transformation and is therefore not separately identified. The term ε_{it} represents the idiosyncratic error component. The persistence parameter satisfies $0 < \alpha < 1$, reflecting the cumulative and

stock-like nature of state capacity. The coefficient γ captures the average relationship between affective political alignment (APA_{it-1}) and subsequent state capacity (SCI_{it}), conditional on institutional persistence (α) and the full set of control variables (X_{it}).

The equation (11) provides the empirical counterpart of the theoretical framework and motivates the use of dynamic panel methods. However, because the model predicts that the effects of APA unfold through the gradual accumulation and depreciation of state capacity, a single coefficient cannot fully capture the adjustment path. The empirical analysis therefore combines static and dynamic panel models with Panel Local Projections (Jordà, 2005; Jordà & Taylor, 2025). The former estimates the conditional relationship between APA and subsequent state capacity, while the latter traces its dynamic response over successive horizons without imposing a specific adjustment path.

4.2 The Dynamic Effects of Affective Political Alignment

To examine the dynamic adjustment of state capacity following changes in affective political alignment, the empirical analysis also employs the Panel Local Projections (LPs) methodology of Jordà (2005). This methodology estimates a separate regression for each horizon, allowing impulse responses to be recovered without imposing a specific autoregressive structure. This flexibility is well suited to the present setting, where state capacity accumulates gradually and adjustment may vary across horizons. Recent contributions further establish the equivalence of LP and VAR impulse responses under standard conditions while emphasising the greater flexibility of LPs when the dynamic process is uncertain (Montiel Olea & Plagborg-Møller, 2021; Plagborg-Møller & Wolf, 2021).

To maintain consistency with the baseline panel specification, the LP regressions retain the same lagged explanatory variables, controls, and country and year fixed effects as equation (11). Only the dependent variable varies across horizons. More precisely, for each horizon $h = 0, \dots, H$; the following specification is estimated:

$$S_{i,t+h} = c_h + \rho_h SCI_{i,t-1} + \gamma_h APA_{i,t-1} + X'_{i,t-1} \beta_h + \mu_i + \lambda_t + \varepsilon_{i,t+h} \quad (12)$$

where $SCI_{i,t+h}$ denotes state capacity measured h periods ahead; $APA_{i,t-1}$ is affective political alignment lagged one period; $X_{i,t-1}$ denotes the vector of economic and political control variables; μ_i represents country fixed effects; λ_t captures common year effects;

and $\varepsilon_{i,t+h}$ is a horizon-specific error term. The sequence of coefficients $\{\gamma_h\}_{h=0}^H$ constitutes the impulse response function of state capacity to changes in APA.

In this regard, whereas the panel estimators capture the average conditional relationship between APA and subsequent state capacity, the LPs identify its timing, persistence, and duration. The two approaches are therefore complementary: the panel estimates assess the average relationship, while the LP estimates directly evaluate the gradual dynamic adjustment predicted by the theoretical framework.

5. Data and Sample

The empirical analysis relies on an unbalanced annual panel of 81 countries covering the period 2000-2023¹. The indicators of political competition and institutional characteristics are primarily drawn from the Varieties of Democracy (V-Dem) Project (version 16)², while the governance indicators from the Worldwide Governance Indicators (WGI)³, and fiscal extraction data from the World Bank's World Development Indicators (WDI)⁴. Additional socioeconomic and macroeconomic controls are obtained from internationally comparable databases described below⁵.

The unit of analysis is the country-year. The countries enter the sample when sufficient information is available to construct the APA index and the corresponding state-capacity measures. The resulting unbalanced panel exploits both cross-country differences and within-country variation, consistent with the gradual institutional dynamics emphasised by the theoretical framework⁶.

The baseline sample deliberately encompasses heterogeneous political regimes. In fact, of the 81 countries, 71 countries are classified by V-Dem as Electoral or Liberal Democracies in at least one year of the observation period (2000 to 2023), while the remaining observations include less competitive political systems and autocracies. Because regime classification is time-varying, countries can change status during the

¹ The countries included in the sample are listed according to the classification of regimes (and their changes over time) from the V-DEM database in Appendix, Table 1.

² See: <https://www.v-dem.net/>

³ See: <https://www.worldbank.org/en/publication/worldwide-governance-indicators>

⁴ See: <https://databank.worldbank.org/source/world-development-indicators>

⁵ The definitions, sources, and frequency of all variables are reported in Appendix Table 2.

⁶ The summary statistics of all variables of the panel are presented in Table 3 of The Appendix.

sample period.

5.1 State Capacity Indicators

State capacity is measured along three dimensions: administrative, legal, and extractive capacity. These dimensions are estimated separately to allow for heterogeneous responses to affective political alignment and are subsequently combined into an aggregate State Capacity Index (SCI).

Administrative Capacity Indicator

The Administrative Capacity Indicator (ACI) is defined as the simple average of Control of Corruption (CC) and Government Effectiveness (GE) from the Worldwide Governance Indicators (WGI):

$$ACI_{it} = \frac{CC_{it} + GE_{it}}{2} \quad (13)$$

Both components are linearly rescaled from their original approximately -2.5 to 2.5 scale to a common 0-100 scale before aggregation. The indicator CC captures the extent to which public authority is exercised free from private interests, while GE reflects the quality of public administration and the capacity to formulate and implement policies. Together, they capture the administrative effectiveness of the state.

Legal Capacity Indicator

The Legal Capacity Indicator (LCI) is defined as the simple average of Regulatory Quality (RQ) and Rule of Law (RL):

$$LCI_{it} = \frac{RQ_{it} + RL_{it}}{2} \quad (14)$$

The two components are similarly rescaled to 0-100 before aggregation. The indicator RQ captures the capacity to formulate and implement sound policies and regulations, whereas RL reflects confidence in and enforcement of legal institutions. The resulting measure captures the state's capacity to establish and enforce predictable rules.

Extractive Capacity Indicator

The Extractive Capacity Indicator (ECI) is measured as tax revenue as a share of GDP:

$$ECI_{it} = \frac{Tax_Revenue_{it}}{GDP_{it}} \quad (15)$$

The measure captures the fiscal dimension of state capacity, namely the state's ability to mobilise domestic resources to finance public goods and sustain public institutions (Besley & Persson, 2011; Dincecco, 2015).

Overall State Capacity Index

The aggregate State Capacity Index (SCI) is constructed as the simple average of the three components:

$$SCI_{it} = \frac{ACI_{it} + LCI_{it} + ECI_{it}}{3} \quad (16)$$

All components are expressed on a common 0-100 scale before aggregation. Equal weighting provides a transparent aggregation rule and treats administrative, legal, and extractive capacity as complementary dimensions of overall state capacity. Also, the separate indicators are retained in the empirical analysis to assess whether the relationship with APA differs across dimensions.

Principal Component Analysis: Robustness Measure

As a robustness check, an alternative aggregate measure is constructed using Principal Component Analysis (PCA), which allows the relative weights of the three dimensions to be determined by their covariance structure rather than imposing equal weights (Jolliffe & Cadima, 2016). The PCA is estimated over the 2000-2023 country-year sample after standardising the three components and excluding observations with missing values. The first principal component explains approximately 86.5% of total variance and is retained as the alternative aggregate indicator:

$$SCI_{it}^{PCA} = \omega_1 ACI_{it} + \omega_2 LCI_{it} + \omega_3 ECI_{it} \quad (17)$$

where ω_1 , ω_2 , and ω_3 denote the estimated factor loadings. Consistency between the baseline SCI and the PCA-based measure provides a robustness check against the choice of aggregation rule.

5.2 Affective Political Alignment

The main explanatory variable is an index measuring Affective Political Alignment (APA) at the country-year level. The APA index is conceptualised as a structural characteristic of the political environment rather than a direct measure of individual-level affective behaviour. It captures contexts in which identity-based attachments, social divisions, political antagonism, and weaker programmatic linkages are more salient. This approach is consistent with research distinguishing affective divisions from ideological or programmatic disagreement and emphasising the role of social identity and intergroup antagonism in political behaviour (Iyengar et al., 2012; Mason, 2018; Druckman & Levendusky, 2019).

The index combines three indicators from the Varieties of Democracy (V-Dem) Project, version 16. The first is party linkages (*v2psprlnks*), which captures the extent to which political organisations rely on programmatic rather than clientelist or personalistic linkages. This variable is reverse-coded so that higher values indicate weaker programmatic linkages. The second variable is social polarisation (*v2smpolsoc*), which captures the intensity of social divisions and group-based identities. The third variable is political polarisation (*v2cacamps*), which measures antagonism and social distance between opposing political camps. Higher values of the latter two variables represent greater social and political polarisation.

These three variables are standardised according to:

$$z_{k,it} = \frac{x_{k,it} - \mu_k}{\sigma_k}$$

where $x_{k,it}$ it is the original value of component k for country i in year t , while μ_k and σ_k denote its sample mean and standard deviation, respectively.

Then the APA index is calculated as:

$$APA_{it} = \frac{\sum_{k=1}^3 z_{k,it}}{N_{it}} \quad (18)$$

where N_{it} denotes the number of non-missing components available for country i in year t . The index is calculated only when at least two components are available.

Therefore, higher values of the APA index identify political environments characterised by weaker programmatic linkages, greater social polarisation, and stronger antagonism between political camps. The index is consequently interpreted as a structural measure of

the political environment associated with affective political alignment, rather than as a direct measure of individual attitudes or behaviour.

5.3 Normalisation and Interpretation

The different normalisations of SCI and APA reflect their distinct analytical roles. The state-capacity indicators are expressed on a common 0-100 scale to facilitate aggregation across administrative, legal, and extractive dimensions and to retain an interpretable level measure of institutional capacity. The APA index, by contrast, is standardised to a mean of zero and unit standard deviation because its purpose is to capture variation in the intensity of the political environment rather than to construct a substantive level scale. This also places the heterogeneous V-Dem components used to construct the APA index on a common statistical scale before aggregation. Accordingly, the estimated coefficient associated with APA index measures the change in state capacity related with a one-standard-deviation increase in affective political alignment.

The empirical strategy distinguishes between the political environment and the accumulated institutional stock. The APA index is a time-varying political condition that can alter governments' investment incentives, whereas state capacity reflects institutional capabilities accumulated over time. This distinction motivates the use of lagged explanatory variables and dynamic specifications.

The theoretical framework also implies that aggregate and component-level effects (do not necessarily) need not coincide. Because institutional dimensions differ in their adjustment dynamics, depreciation, and political returns, the APA index may affect administrative, legal, and extractive capacity with different magnitudes and persistence. A negative aggregate effect can therefore coexist with a smaller or statistically insignificant effect for a particular dimension.

5.4 Control Variables

The empirical specifications include socioeconomic, macroeconomic, and institutional controls. These comprise GDP per capita, population size, economic growth, trade openness, public expenditure, and democracy. The GDP per capita variable captures differences in economic resources and development, while population size accounts for the scale and organizational demands placed on the state (Besley & Persson, 2009 and

2014; Dincecco & Katz, 2016). The variables of economic growth and trade openness capture macroeconomic and external conditions that may affect governments' fiscal resources and incentives to invest in state capacity (Besley et al., 2013; Dincecco & Katz, 2016). While public expenditure controls for the resources available for government activity and institutional investment (Besley et al., 2013; Hanson & Sigman, 2021). Finally, the variable democracy captures differences in political institutions and accountability that may independently shape state capacity (Bäck & Hadenius, 2008; Arias et al., 2016).

All controls enter with a one-period lag, consistent with the dynamic nature of state-capacity formation and the view of state capacity as a cumulative institutional asset (Besley & Persson, 2009; Hanson & Sigman, 2021). This temporal ordering also reduces concerns that contemporaneous controls are themselves affected by state capacity.

6. Empirical Results

The empirical strategy distinguishes between the political environment measured by the APA index and the accumulated institutional stock represented by state capacity. This index is interpreted as a structural characteristic of the political environment that affects governments' incentives to invest in long-term institutional capacity. The mechanism therefore operates through the political returns to institutional investment, implying that effects on state capacity should emerge gradually as institutional stocks accumulate or depreciate.

6.1 Panel Data Estimation Strategy

The empirical analysis proceeds from static fixed-effects models to dynamic fixed-effects specifications and System-GMM. The static model establishes the baseline within-country relationship, while the dynamic specifications introduces the lagged dependent variable to capture the persistence inherent in state capacity. Because dynamic fixed-effects models may suffer from Nickell bias, System-GMM provides a complementary estimator for dynamic panels (Arellano & Bover, 1995; Blundell & Bond, 1998).

The sequence is substantive as well as econometric. The static model assesses whether changes in APA index are associated with subsequent changes in institutional capacity;

the dynamic model tests whether this relationship persists after accounting explicitly for the existing institutional stock; and System-GMM provides a further check under alternative assumptions about dynamic endogeneity.

Baseline Fixed-Effects Estimates

The table 1 reports the baseline fixed-effects estimates, exploiting within-country variation while controlling for country and year fixed effects.

**Table 1. State capacity and Affective Political Alignment
Fixed effects Static models**

	Aggregate State Capacity Indicator (1)	Administrative Capacity Indicator (2)	Extractive Capacity Indicator (3)	Legal Capacity Indicator (4)	PCA- Aggregate State Capacity Indicator (5)
Affective Political Alignment (-1)	-1.590*** (0.563)	-2.255*** (0.823)	0.101 (0.445)	-2.615*** (0.820)	-0.143*** (0.056)
Gdp_pc (in logs) (-1)	8.674*** (1.898)	14.366*** (2.640)	-1.358 (1.530)	13.014*** (2.664)	0.765*** (0.191)
Population (in logs) (-1)	-7.216*** (2.544)	-10.126*** (3.546)	-0.978 (2.532)	-10.543*** (3.425)	-0.674*** (0.264)
Gdp_pc_growth_rate (-1)	0.029 (0.023)	-0.002 (0.040)	0.087*** (0.028)	0.003 (0.033)	0.004* (0.002)
Trade (-1)	-0.014 (0.012)	-0.013 (0.016)	0.008 (0.013)	-0.037** (0.016)	-0.001 (0.001)
Public expenditure (-1)	0.087** (0.038)	0.069* (0.044)	0.161*** (0.038)	0.031 (0.049)	0.011*** (0.004)
Democracy (-1)	7.850*** (3.190)	10.216*** (4.095)	1.157 (2.798)	12.177*** (4.245)	0.744** (0.330)
Constant	-19.366 (19.060)	-53.201** (26.144)	33.847* (18.523)	-38.746 (26.572)	-5.756*** (1.969)
Country Effects	Yes	Yes	Yes	Yes	Yes
Time effects	Yes	Yes	Yes	Yes	Yes
Within R_squared	0.364	0.323	0.251	0.397	0.336
F statics	4.58	5.90	8.97	5.72	4.32
Prob >F	0.000	0.000	0.000	0.000	0.000
Countries	81	81	81	81	81
Observations	1591	1591	1591	1591	1591

Notes: Standard errors are reported in parentheses. Significance levels: 10%, 5%, and 1%. Source: Authors' own estimation.

The coefficient associated with the APA index is negative and statistically significant for aggregate state capacity (-1.590). Given the standardisation of this index, this implies that a one-standard-deviation increase in APA is associated with a 1.590-point decline in the aggregate. The negative association is also significant for administrative capacity (-2.255) and legal capacity (-2.615), whereas the coefficient for extractive capacity is small and

statistically insignificant (0.101). The pattern indicates that the aggregate relationship is driven primarily by administrative and legal dimensions. Note that this is consistent with the theoretical mechanism: institutional functions requiring sustained organisational investment, coordination, and predictable enforcement may be particularly sensitive to the political returns to government performance. The weaker extractive result provides an important qualification. The fiscal capacity generates resources that can be deployed for current expenditure and other politically salient objectives, potentially giving it a different political return from longer-horizon administrative and legal investment. The result is therefore interpreted as weaker evidence for the APA mechanism in the extractive dimension rather than as evidence that fiscal institutions are politically irrelevant. The PCA-based aggregate measure yields a negative and statistically significant coefficient (-0.143). Since the first principal component accounts for approximately 86.5 per cent of the variance across the three underlying dimensions, this result indicates that the aggregate finding is not dependent on the equal-weighting rule used to construct the baseline SCI.

The control variables display broadly plausible conditional associations. The GDP per capita variable is positively associated with aggregate, administrative, and legal capacity, while population is negatively associated with these dimensions. The economic growth variable is generally insignificant, whereas the public expenditure is positively associated with aggregate, administrative, and extractive capacity. The trade openness variable is largely insignificant, with a negative association for legal capacity. And democracy variable is positively associated with aggregate, administrative, and legal capacity but not with extractive capacity.

Overall, the baseline results are consistent with the central empirical prediction that higher APA index is associated with lower subsequent state capacity, with stronger relationships for administrative and legal capacity. Nevertheless, reverse causality and time-varying omitted factors cannot be ruled out. The subsequent dynamic specifications therefore examine whether the relationship persists after accounting explicitly for the persistence of institutional capacity and alternative sources of dynamic endogeneity.

Dynamic Fixed Effects

The table 2 introduces the lagged dependent variable:

**Table 2. State capacity and Affective Political Alignment
Dynamic Fixed effects models**

	Aggregate State Capacity Indicator (1)	Administrative Capacity Indicator (2)	Extractive Capacity Indicator (3)	Legal Capacity Indicator (4)	PCA- Aggregate State Capacity Indicator (5)
0Aggregate State Capacity Indicator (-1)	0.801*** (0.050)	---	---	---	---
Administrative Capacity Indicator (-1)	---	0.783*** (0.041)	---	---	---
Extractive Capacity Indicator (-1)	---	---	0.756*** (0.042)	---	---
Legal Capacity Indicator (-1)	---	---	---	0.756*** (0.051)	---
PCA- Aggregate State Capacity Indicator (-1)	---	---	---	---	0.801*** (0.044)
Affective Political Alignment (-1)	-0.462*** (0.150)	-0.686*** (0.235)	0.042 (0.131)	-0.878*** (0.254)	-0.041*** (0.015)
Gdp_pc (in logs) (-1)	1.118** (0.550)	2.398*** (0.832)	-0.785* (0.400)	2.602*** (0.819)	0.087* (0.050)
Population (in logs) (-1)	-1.508** (0.678)	-2.133** (1.047)	-0.617 (0.687)	-2.461** (1.072)	-0.150** (0.066)
Gdp_pc_growth_rate (-1)	0.028** (0.012)	0.009 (0.018)	0.027* (0.015)	0.049*** (0.019)	0.003** (0.001)
Trade (-1)	-0.004 (0.003)	-0.003 (0.005)	0.004 (0.004)	-0.012** (0.009)	-0.001 (0.001)
Public expenditure (-1)	0.022* (0.012)	0.021 (0.014)	0.037*** (0.009)	0.016 (0.018)	0.002** (0.001)
Democracy (-1)	1.294* (0.767)	2.508** (1.127)	0.316 (0.794)	1.896 (1.270)	0.123* (0.073)
Constant	1.888 (4.330)	-5.445 (7.230)	12.984*** (4.665)	-3.824 (6.952)	-0.521 (0.491)
Country Effects	Yes	Yes	Yes	Yes	Yes
Time effects	Yes	Yes	Yes	Yes	Yes
Within R-squared	0.791	0.746	0.698	0.768	0.781
F statics	92.74	137.87	95.34	67.43	91.47
Prob >F	0.000	0.000	0.000	0.000	0.000
Countries	81	81	81	81	81
Observations	1591	1591	1591	1591	1591

Notes: Standard errors are reported in parentheses. Significance levels: 10%, 5%, and 1%. Source: Authors' own estimation.

The temporal persistence is high and statistically significant across all five specifications, with coefficients ranging from 0.756 to 0.801, confirming the stock-like nature of state capacity. The coefficient associated with the APA index remains negative and significant for aggregate (-0.462), administrative (-0.686), and legal capacity (-0.878), while the extractive coefficient remains insignificant (0.042). The qualitative pattern of the baseline results is therefore preserved after accounting explicitly for institutional persistence. The

smaller coefficients associated with the APA index are consistent with the dynamic specification isolating the relationship with subsequent capacity conditional on the existing institutional stock.

Dynamic fixed-effects estimates may nevertheless be affected by Nickell bias (Nickell, 1981). Therefore, the application of System-GMM estimation strategy is used as a complementary specification.

System-GMM

The table 3 reports two-step System-GMM estimates using collapsed instruments:

Table 3. State capacity and Affective polarization - Two- step robust System-GMM Dynamic models

	Aggregate State Capacity Indicator (1)	Administrative Capacity Indicator (2)	Extractive Capacity Indicator (3)	Legal Capacity Indicator (4)	PCA- Aggregate State Capacity Indicator (5)
Aggregate State Capacity Indicator (-1)	0.950*** (0.068)	---	---	---	---
Administrative Capacity Indicator (-1)	---	0.885** (0.083)	---	---	---
Extractive Capacity Indicator (-1)	---	---	0.764*** (0.139)	---	---
Legal Capacity Indicator (-1)	---	---	---	0.923*** (0.077)	---
PCA- Aggregate State Capacity Indicator (-1)	---	---	---	---	0.968*** (0.070)
Affective Political Alignment (-1)	-0.566** (0.310)	-1.689*** (0.597)	1.338** (0.612)	-1.359*** (0.526)	-0.032* (0.029)
Gdp_pc (in logs) (-1)	0.245 (0.550)	0.799 (0.908)	1.078* (0.612)	0.403 (0.729)	0.014 (0.057)
Population (in logs) (-1)	0.002 (0.039)	0.064 (0.093)	-0.233 (0.149)	0.116 (0.090)	-0.002 (0.003)
Gdp_pc_growth_rate (-1)	0.013 (0.011)	-0.001 (0.019)	0.014 (0.017)	0.026* (0.020)	0.002 (0.001)
Trade (-1)	0.001 (0.001)	0.003 (0.003)	-0.005 (0.004)	0.002 (0.003)	0.001 (0.001)
Public expenditure (-1)	0.006 (0.011)	0.003 (0.012)	0.103 (0.068)	0.007 (0.011)	0.001 (0.001)
Democracy (-1)	-0.086 (0.644)	-0.302 (0.877)	1.812 (1.290)	-0.060 (1.361)	-0.003 (0.066)
Constant	0.091 (2.577)	-1.269 (3.979)	-6.347 (4.066)	-0.047 (3.367)	-0.119 (0.583)
Country Effects	Yes	Yes	Yes	Yes	Yes
Time effects	Yes	Yes	Yes	Yes	Yes
Instruments	35	35	35	35	35
Countries	81	81	81	81	81
Observations	1591	1591	1591	1591	1591
AR (1) test (p-value)	0.000	0.000	0.022	0.000	0.000
AR (2) test (p-value)	0.139	0.100	0.578	0.110	0.254
Hansen test (p-value)	0.476	0.570	0.945	0.599	0.371
Difference-in-Hansen test (p-value)	0.778	0.490	0.870	0.223	0.265

Notes: Standard errors are reported in parentheses. Significance levels are 10%, 5%, and 1%. The two-step System-GMM estimator uses collapsed instruments. AR(1) and AR(2) report Arellano–Bond tests for first- and second-order serial correlation in the differenced residuals. Hansen and Difference-in-Hansen tests assess the validity of the instrument set and the corresponding subsets of instruments. Source: Authors' own estimation

State-capacity persistence remains strong across all specifications. The coefficient associated with the APA index is negative and significant for aggregate (-0.566), administrative (-1.689), legal (-1.359), and PCA-based aggregate capacity (-0.032). The extractive estimate is instead positive and significant (1.338), highlighting greater estimator sensitivity for fiscal capacity. The AR (2) tests do not indicate second-order serial correlation, while the Hansen tests do not reject the instrument sets. The number of collapsed instruments is also limited relative to unrestricted specifications.

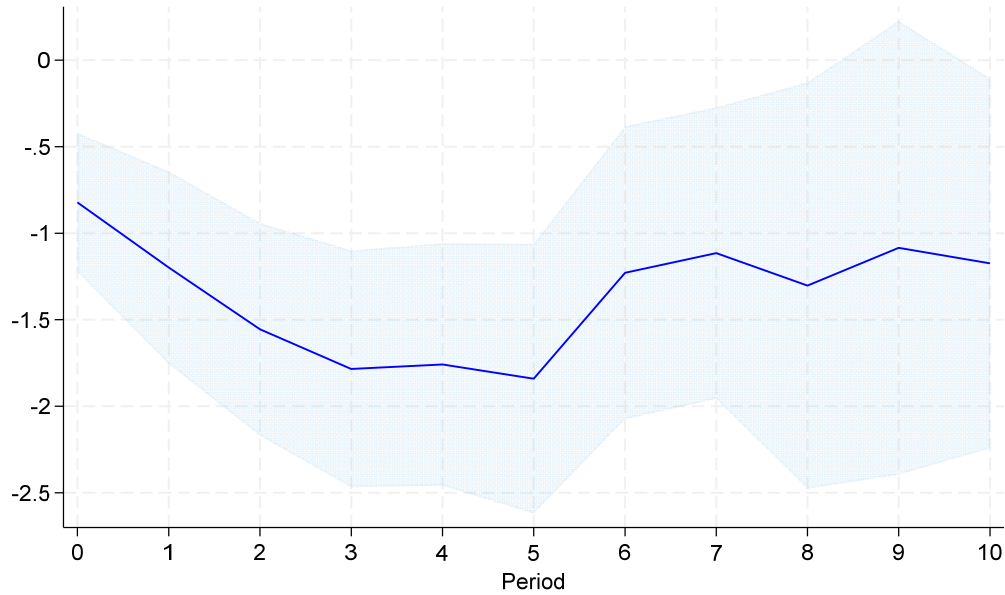
In summary, taken together, the panel-data estimations (Tables 1 to 3) provide consistent evidence of a negative relationship between the APA index and aggregate, administrative, and legal capacity across the main estimators, whereas the extractive dimension is less stable.

6.2 Evidence from Local Projections

The Panel Local Projections (LPs) estimations complement the panel estimates by tracing the dynamic response of state capacity to changes in affective political alignment (APA). The figures 1 to 5 report impulse response functions (IRFs) for aggregate, administrative, extractive, legal, and PCA-based aggregate capacity. The specifications include country and year fixed effects, one lag of the dependent variable and the APA index, and the baseline controls. Shaded areas denote 95% confidence intervals based on country-clustered standard errors.

Aggregate State Capacity

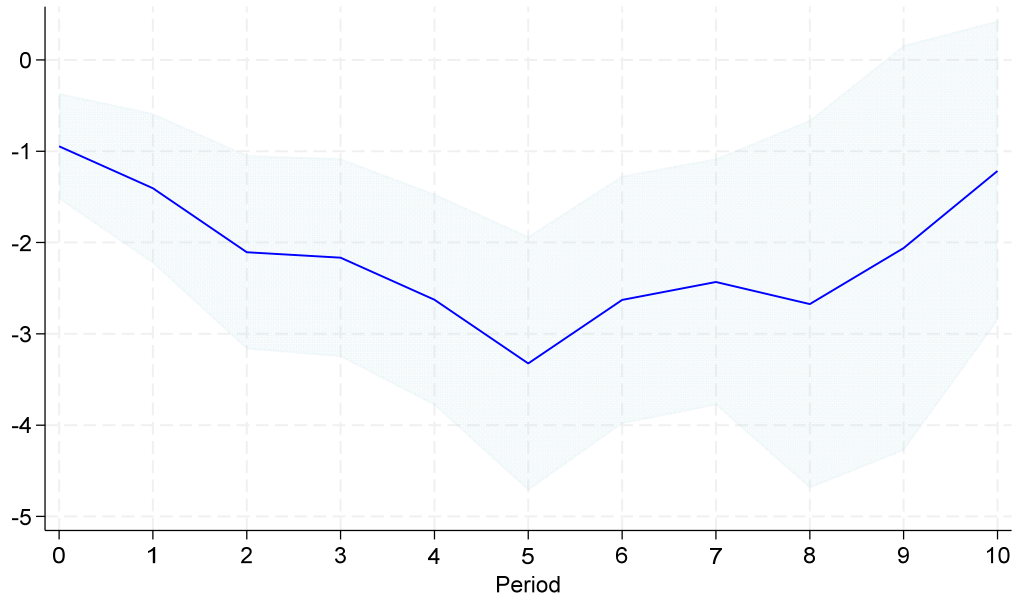
Figure 1. Impulse Response of Aggregate State Capacity to an Affective Political Alignment Shock



Note: Impulse response functions are estimated using panel local projections with country and year fixed effects. All specifications include one lag of the dependent variable, one lag of affective voting, and the baseline set of macroeconomic and institutional controls. Shaded areas represent 95 per cent confidence intervals based on country-clustered standard errors. The horizontal axis reports the forecast horizon (years). Source: Authors' own estimation

The aggregate response is negative across most horizons, becoming more pronounced during the first several years before gradually attenuating. The point estimates remain below zero through approximately horizon 8-9, with confidence intervals excluding zero over this part of the response. The pattern is consistent with the theoretical stock-flow mechanism: changes in political incentives (do not necessarily) need not immediately affect the institutional stock but can progressively alter its accumulation path. This gradual response is consistent with the cumulative nature of organisational and bureaucratic investment. At longer horizons, precision declines as the forecast horizon increases.

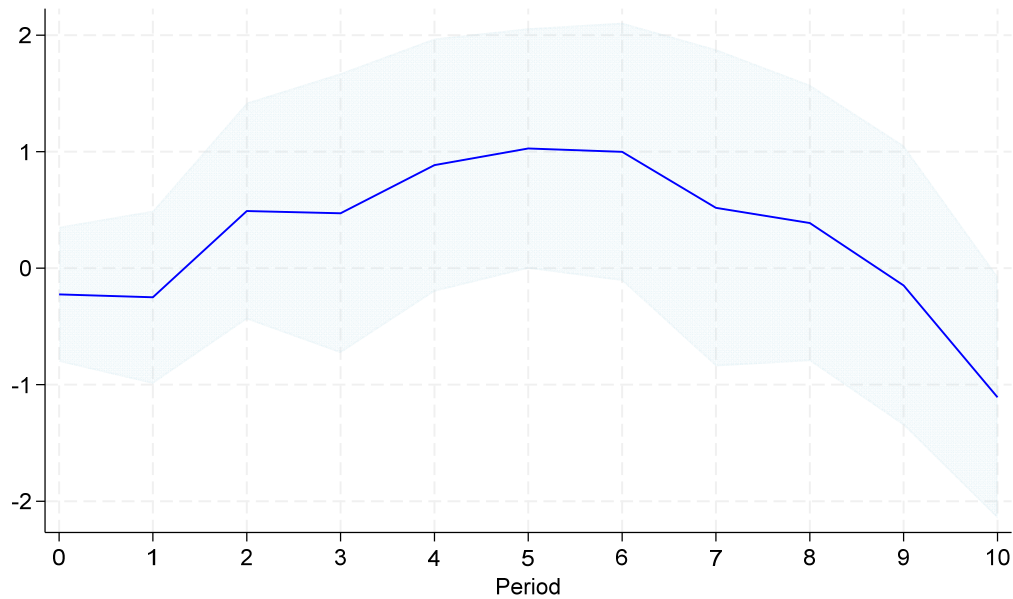
Figure 2 - Impulse Response of Administrative Capacity to an Affective Political Alignment Shock



Note: Impulse response functions are estimated using panel local projections with country and year fixed effects. All specifications include one lag of the dependent variable, one lag of affective voting, and the baseline set of macroeconomic and institutional controls. Shaded areas represent 95 per cent confidence intervals based on country-clustered standard errors. The horizontal axis reports the forecast horizon (years). Source: Authors' own estimation

The administrative capacity displays a similar but somewhat larger negative response. The estimates become increasingly negative during the initial horizons and then attenuate, remaining below zero through approximately horizon 9, with confidence intervals excluding zero over most of this period. This gradual response is consistent with the cumulative nature of organisational and bureaucratic investment. The LP results therefore reinforce the negative association identified in the panel estimates while showing that its effects unfold over several periods.

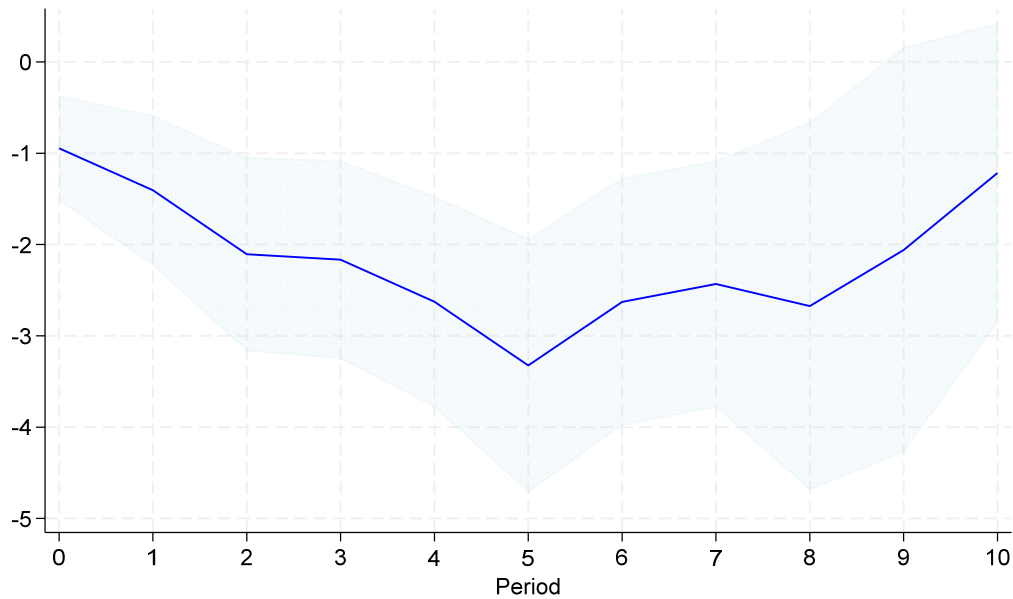
Figure 3 - Impulse Response of Extractive Capacity to an Affective Political Alignment Shock



Note: Impulse response functions are estimated using panel local projections with country and year fixed effects. All specifications include one lag of the dependent variable, one lag of affective voting, and the baseline set of macroeconomic and institutional controls. Shaded areas represent 95 per cent confidence intervals based on country-clustered standard errors. The horizontal axis reports the forecast horizon (years). Source: Authors' own estimation

The response of extractive capacity differs from the other dimensions. Point estimates remain close to zero initially, become moderately positive at some horizons, and turn slightly negative thereafter, while confidence intervals include zero throughout. The LPs evidence therefore provides limited support for a systematic dynamic response of extractive capacity to APA index. However, this result should be interpreted cautiously, as the empirical measure -tax revenue relative to GDP- captures an important but narrower aspect of extractive capacity and may not fully reflect the broader fiscal and institutional dimension of extraction.

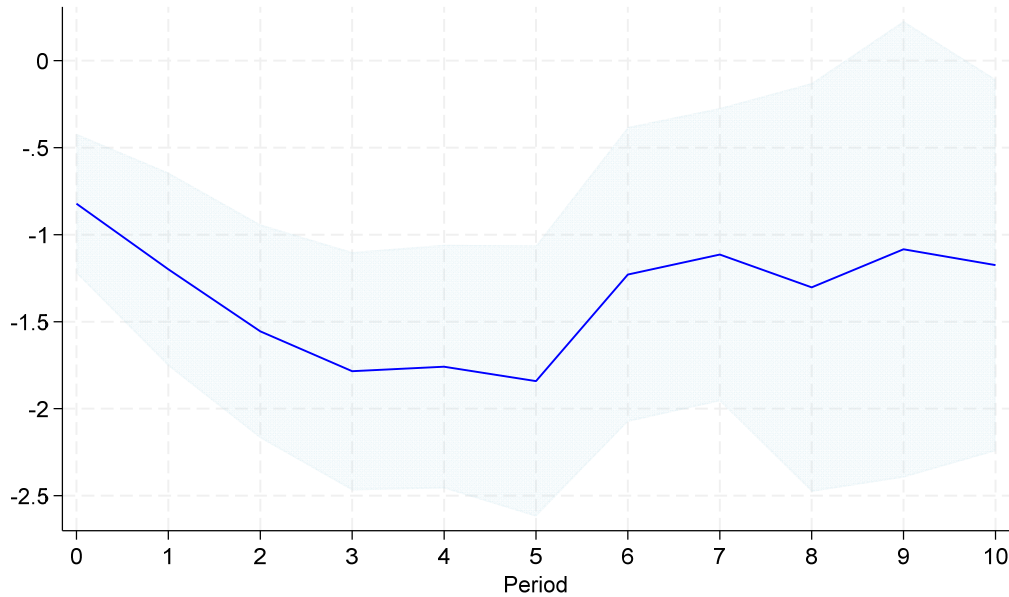
Figure 4 - Impulse Response of Legal Capacity to an Affective Political Alignment Shock



Note: Impulse response functions are estimated using panel local projections with country and year fixed effects. All specifications include one lag of the dependent variable, one lag of affective voting, and the baseline set of macroeconomic and institutional controls. Shaded areas represent 95 per cent confidence intervals based on country-clustered standard errors. The horizontal axis reports the forecast horizon (years). Source: Authors' own estimation

The legal capacity indicator exhibits the largest negative point-estimate response. The estimates become increasingly negative during the first five years and subsequently attenuate, remaining below zero through approximately horizon 9, with confidence intervals excluding zero over most of this period. The stronger response is consistent with the panel estimates and with the long-horizon nature of investments in enforcement, regulatory predictability, and institutional constraints.

Figure 5 - Impulse Response of Principal Components Index to an Affective Political Alignment Shock



Note: Impulse response functions are estimated using panel local projections with country and year fixed effects. All specifications include one lag of the dependent variable, one lag of affective voting, and the baseline set of macroeconomic and institutional controls. Shaded areas represent 95 per cent confidence intervals based on country-clustered standard errors. The horizontal axis reports the forecast horizon (years). Source: Authors' own estimation

The PCA-based aggregate index displays a dynamic pattern similar to the baseline state capacity index, with negative point estimates that become more pronounced initially and then attenuate. The similarity suggests that the dynamic pattern is not mechanically driven by the equal-weighting rule used to construct the baseline index. The precision decreases at longer horizons, as expected in a finite panel.

Taken together, the LPs estimates show a gradual and persistent negative trajectory for aggregate, administrative, and legal capacity, while extractive capacity exhibits no comparable systematic response. The main contribution of the LP analysis is therefore to characterise the timing and persistence of the estimated relationship, rather than to provide a separate causal interpretation of each horizon-specific coefficient.

7. Conclusions

This paper examines whether affective political alignment (APA) is associated with the

evolution of state capacity. The central argument is that APA can alter the political returns to long-horizon institutional investment by weakening the responsiveness of political support to government performance. The theoretical framework models state capacity as a depreciating institutional stock and shows how weaker performance-based political incentives can reduce optimal institutional investment, generating gradual effects on accumulated capacity.

The empirical results are broadly consistent with this mechanism. Across static and dynamic panel specifications, higher APA is associated with lower aggregate state capacity, with the most consistent negative relationships observed for administrative and legal capacity. The Local Projections estimations further indicate that these effects unfold gradually and persist over several subsequent periods rather than appearing as an immediate one-period response. Extractive capacity exhibits a more mixed pattern across estimators and dynamic specifications. This heterogeneity is consistent with the multidimensional nature of state capacity and suggests that the tax-revenue measure used here captures only part of the broader concept of extractive capacity.

The broader contribution of this paper is to connect the research on affective political alignment and state capacity through the political incentives governing institutional accumulation. The argument does not imply that political disagreement is inherently detrimental to institutional development, nor that institutional deterioration requires the removal of formal political constraints. Rather, state capacity may weaken gradually when political support becomes less responsive to improvements in government performance, thereby reducing the political returns on investments whose benefits materialize over longer horizons.

This perspective also highlights the importance of treating state capacity as a multidimensional and dynamic institutional outcome. Administrative, legal, and extractive capacities need not respond uniformly to changes in the political environment because they involve different forms of investment, organisational requirements, and political returns. The stronger and more persistent associations observed for administrative and legal capacity therefore suggest that the institutional consequences of APA may be selective rather than uniform. In this sense, the evidence is consistent with a process of selective institutional underinvestment, concentrated in administrative and legal foundations of state capacity rather than involving a generalized deterioration across all dimensions.

More generally, the analysis suggests that state capacity is not only a determinant of government performance but also an outcome of the political incentives generated by that performance. When those incentives weaken, institutional underinvestment may accumulate gradually even when the social returns on capable governments remain high. This provides a perspective on why institutional capacity can deteriorate without deliberate institutional dismantling and why changes in the political environment may have consequences extending well beyond immediate political behaviour.

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Appendix

Table 1 - Regimes of the World in the 81 countries of the panel, 2000–2023

Country	Regimes of the World (2000–2023) (V-DEM)
Argentina	2 - Electoral Democracy
Australia	3 - Liberal Democracy
Austria	3 - Liberal Democracy
Bangladesh	2 → 1 → 0 - Electoral Democracy → Electoral Autocracy → Closed Autocracy
Belgium	3 - Liberal Democracy
Bolivia (Plurinational State of)	2 → 1 - Electoral Democracy → Electoral Autocracy
Brazil	2 - Electoral Democracy
Bulgaria	2 - Electoral Democracy
Burkina Faso	2 → 1 → 0 - Electoral Democracy → Electoral Autocracy → Closed Autocracy
Cabo Verde	2 - Electoral Democracy
Cameroon	1 - Electoral Autocracy
Canada	3 → 2 - Liberal Democracy → Electoral Democracy
Chile	3 → 2 - Liberal Democracy → Electoral Democracy
Colombia	2 - Electoral Democracy
Congo (Democratic Republic of the)	0 → 1 - Closed Autocracy → Electoral Autocracy
Costa Rica	3 - Liberal Democracy
Croatia	2 - Electoral Democracy
Czechia	3 - Liberal Democracy
Denmark	3 - Liberal Democracy
Dominican Republic	2 - Electoral Democracy
Ecuador	2 → 1 - Electoral Democracy → Electoral Autocracy
El Salvador	2 → 1 - Electoral Democracy → Electoral Autocracy
Estonia	3 - Liberal Democracy
Finland	3 - Liberal Democracy
France	3 - Liberal Democracy
Georgia	2 → 1 - Electoral Democracy → Electoral Autocracy
Germany	3 - Liberal Democracy
Ghana	2 - Electoral Democracy
Greece	3 - Liberal Democracy
Guatemala	2 - Electoral Democracy
Honduras	2 → 1 - Electoral Democracy → Electoral Autocracy
Hungary	3 → 2 - Liberal Democracy → Electoral Democracy
Iceland	3 - Liberal Democracy
Indonesia	2 - Electoral Democracy
Ireland	3 - Liberal Democracy
Israel	2 - Electoral Democracy
Italy	3 - Liberal Democracy
Jamaica	2 - Electoral Democracy
Japan	3 - Liberal Democracy
Kazakhstan	1 - Electoral Autocracy
Kenya	1 → 2 - Electoral Autocracy → Electoral Democracy
Korea (Republic of)	2 - Electoral Democracy
Kyrgyzstan	1 → 0 - Electoral Autocracy → Closed Autocracy
Latvia	3 - Liberal Democracy
Lithuania	3 - Liberal Democracy
Luxembourg	3 - Liberal Democracy
Madagascar	2 → 1 - Electoral Democracy → Electoral Autocracy
Malaysia	1 → 2 - Electoral Autocracy → Electoral Democracy
Mali	1 → 0 - Electoral Autocracy → Closed Autocracy
Malta	3 - Liberal Democracy
Mauritius	3 - Liberal Democracy
Mexico	2 - Electoral Democracy
Morocco	1 - Electoral Autocracy
Netherlands	3 - Liberal Democracy
New Zealand	3 - Liberal Democracy
Nicaragua	2 → 1 - Electoral Democracy → Electoral Autocracy
Norway	3 - Liberal Democracy
Panama	2 - Electoral Democracy
Papua New Guinea	2 - Electoral Democracy
Paraguay	2 - Electoral Democracy
Peru	2 → 1 - Electoral Democracy → Electoral Autocracy
Philippines	2 - Electoral Democracy
Poland	3 → 2 - Liberal Democracy → Electoral Democracy

Country	Regimes of the World (2000–2023) (V-DEM)
Portugal	3 - Liberal Democracy
Rwanda	0 → 1 - Closed Autocracy → Electoral Autocracy
Senegal	2 → 1 - Electoral Democracy → Electoral Autocracy
Singapore	1 - Electoral Autocracy
Slovakia	3 → 2 - Liberal Democracy → Electoral Democracy
Slovenia	3 - Liberal Democracy
South Africa	2 - Electoral Democracy
Spain	3 - Liberal Democracy
Sweden	3 - Liberal Democracy
Switzerland	3 - Liberal Democracy
Thailand	2 → 1 → 0 - Electoral Democracy → Electoral Autocracy → Closed Autocracy
Togo	1 - Electoral Autocracy
Tunisia	1 → 2 → 1 - Electoral Autocracy → Electoral Democracy → Electoral Autocracy
Turkey	2 → 1 - Electoral Democracy → Electoral Autocracy
Uganda	1 - Electoral Autocracy
United Kingdom	3 - Liberal Democracy
United States of America	3 → 2 - Liberal Democracy → Electoral Democracy
Uruguay	3 - Liberal Democracy

Source: Authors' own elaboration

Table 2 – Definition of variables and sources

Variable	Definition	Source
Affective Polarization Alignment (APA) Index	The APA Index measures the structural propensity of political environments towards affective, identity-based, and antagonistic forms of political alignment, reflecting the extent to which political competition is shaped by social polarisation and inter-group political conflict.	Varieties of Democracy (V-Dem)
Aggregate State Capacity Indicator	State capacity is conceptualized as a multidimensional construct comprising fiscal (extractive), legal, and administrative components.	Worldwide Governance Indicators (WGI) of the World Bank (WB) and International Monetary Fund (IMF)
PCA – Aggregate State Capacity Indicator	First principal component summarising administrative, legal, and extractive dimensions of state capacity.	Worldwide Governance Indicators (WGI) of the World Bank (WB) and International Monetary Fund (IMF)
Administrative Capacity Indicator	Administrative capacity reflects a professional bureaucracy capable of effective policy implementation.	WGI - WB
Extractive Capacity Indicator	Extractive Capacity enables sustainable revenue legal capacity ensures impartial rule formulation and enforcement mobilization. It is measured as tax revenue (% of GDP)	IMF
Legal Capacity Indicator	Legal capacity ensures impartial rule formulation and enforcement. It is proxied by the Worldwide Governance Indicators' Regulatory Quality and Rule of Law measures	WGI – WB
GDP per capita	GDP divided by the mid-year population, capturing the average level of economic development and income per person.	WDI – WB
Population	Population, total (measured in millions of inhabitants).	WDI – WB
GDP growth rate	Annual percentage growth rate of GDP, measuring changes in aggregate economic activity.	WDI – WB
Trade (% GDP)	The sum of exports and imports of goods and services as a percentage of GDP, capturing the degree of trade openness	WDI – WB
Public expenditure (% of GDP)	General government expenditure measured as a percentage of GDP, capturing the scale of public sector resource allocation.	Government Finance Statistics - IMF
Democracy	Classifies political regimes on a four-category ordinal scale ranging from closed autocracy to liberal democracy.	V-Dem
Regimes of the World	The variable classifies regimes on a four-fold ordinal scale: 0 (Closed Autocracy) lacks multi-party elections; 1 (Electoral Autocracy) holds multi-party elections but lacks fairness and civil liberties; 2 (Electoral Democracy) achieves clean elections and institutionalized freedoms; and 3 (Liberal Democracy) supplements electoral standards with robust rule of law and checks on executive power.	V-Dem
Executive Ideology	Ideological orientation of the executive, coded on a 1–3 scale, where 1 = right-wing, 2 = centre, and 3 = left-wing.	Database of Political institutions (DPI) of the World Bank (WB)
Years to Current Election	Number of years remaining until the next scheduled executive election. Values range from 0 to 8, with 0 indicating an election year and higher values indicating a greater number of years until the next scheduled election.	DPI - WB

Source: Authors' own elaboration

Table 3 – Descriptive statistics

	Mean	Standard deviation	Minimum	Maximum	Observations	Countries
Affective Polarization Alignment	-0.338	0.787	-2.085	1.670	1591	81
Aggregate State Capacity Indicator	49.625	15.220	11.301	77.821	1591	81
Administrative Capacity Indicator	60.841	19.867	16.623	97.820	1591	81
Extractive Capacity Indicator	0.201	0.070	0.034	0.481	1591	81
Legal Capacity Indicator	61.66058	18.1618	14.31753	90.61767	1591	81
PCA- Aggregate State Capacity Indicator	0.410	1.562	-3.580	3.383	1591	81
GDP per capita (in logs)	9.275	1.397	5.736	11.630	1591	81
Population (in logs)	2.519	1.456	-1.254	5.824	1591	81
GDP growth rate	3.088	3.773	-20.805	24.615	1591	81
Trade (% GDP)	94.242	59.097	19.560	437.327	1591	81
Public expenditure (% of GDP)	27.741	11.024	5.649	62.339	1591	81
Democracy	0.706	0.210	0.154	0.922	1591	81
Regimes of the World	2.283	0.837	0	3	1591	81
Years to Current Election	1.859	1.324	0	6	1513	80
Executive Ideology	1.934	0.909	1	3	1091	66

Source: Authors' own elaboration