

How do you build a road to nowhere?

... History versus expectations framework

Kumar Aniket

University College London

Fin-Eco Group at The Bartlett

3 October 2017

HOW DO YOU BUILD A ROAD TO NOWHERE?

Where is nowhere?

Geography

Human history

Expectations

Uneven growth?

UNEVEN GROWTH?

Evenness in marginal product of capital

What is a *capital*?

Private

Social

Public

Relationship status? *Its complicated*

Complementary

Substitutes

DEMAND SIDE

Does pattern of citizens' *demand* matter?

Representative agent framework?

Other factors

Transaction cost

Norway

Solow versus Lewis model

Space in growth theory

HOW DO YOU BUILD A ROAD TO NOWHERE?

Government needs taxes to build a road

Entrepreneurs need a road to access the market

Marginal product of public, social and private capital *interlinked*.

Conceptual problems:

- Uncertainty

- Strategic uncertainty

- Increasing returns to scale – *where?*

OPTIMAL PUBLIC INVESTMENT

Government should borrow by *leveraging future taxes*

Entrepreneurs should borrow by *leveraging future payoffs*

Complementarities in lenders' action

- multiple equilibria

- coordination problem

History versus expectations framework

UNDERSTANDING GOOD GOVERNMENT

Bihar road building project 2005-10

Existing power structure

Creating a new power structure

Role of initiative

Personal commitment through burning the building approach

Task design problem in principal multi-agent framework

... team theory