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# Perspectives on Political Economy

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# Kapuscinski: random history

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- ❖ “History is so often the product of thoughtlessness: it is the offspring of human stupidity, the fruit of benightedness, idiocy and folly. In such instance, it is enacted by people who do not know what they are doing”
- ❖ This is in the context of describing Samuel Doe’s last days as President of Liberia
- ❖ Kapuscinski argues that what distinguished Doe was not his rapacity, but his complete dissociation from the policy process.
- ❖ “he governed for ten years. The country simply came to a standstill”... “He didn’t really know what it was that he was supposed to do as president”
- ❖ So he spent his time playing checkers instead of doing anything to build up his support. Till someone caught him and killed him. Just as he had killed the previous president to come to power.



# Determinist History



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# One important fact: the long reach of History

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- ❖ Legal institutions persist: English colonies have common law; French colonies have civil law
- ❖ Acemoglu, Johnson, and Robinson: persistence of extractive institutions set up during the colonial era.
- ❖ Areas in India that had indirect tax collection are poorer and more backward today
- ❖ Mita (Dell)
  - ❖ What happened there?



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# Economic Determinism

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- ❖ Marx: immutable historical laws explain/predict the necessary transition from feudalism to capitalism, and from capitalism to socialism.
- ❖ This view of economic determinism is seeing a revival: e.g. Acemoglu and Robinson (2000) [extension of franchise].
- ❖ However Acemoglu and Robinson's view of determinism is much more pessimistic than Marx's
  - ❖ Robert Michel's "iron law of oligarchy": small group can grab the reins of power and maintain themselves. Economic and political power mutually reinforce, so change is hard. Example: persistence of chiefs in Sierra Leone; undermining of term limit laws in the Philippines.



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# Cultural Determinism

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- ❖ An alternative source of persistence is culture (Weber): culture moves very slowly and affect human relations long after the factor that shaped culture have gone.
- ❖ Nunn (2008): regions that sent more slaves are poorer today, and they also have less trust (Nunn and Wanchekon, 2011).
- ❖ Botticini and Eckstein (2005) on the persistence of educational traditions in the Jewish community



# Persistence without determinism



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# Persistence does not require determination

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- ❖ The persistence we observe may not be due to determinism but due to either:
  - ❖ inertia—things are just slow to change—but there is nothing holding them back either
  - ❖ or because of coordination failures
    - ❖ Collier (2008): perpetual civil conflict. Lack of trust between groups so groups are prepared to lay down arms.
    - ❖ Padro-i-Miguel (2007): mistrust between groups lead them to chose bad leaders.
- ❖ The implication of these kinds of models is that you can get out of a bad equilibrium through intervention. This is what leads Collier to favor external intervention.



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# Persistence does not rule out change

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- ❖ Sub-cultural traits can persist but as the economic environment changes, their relative usefulness changes
- ❖ Avner Greif's work: e.g. on the Maghribi traders
- ❖ Munshi and Rosenzweig on caste networks in Mumbai and how, when the economic incentives for English education changed, women benefitted relative men, precisely because men were more reliant on caste networks



Why do we care?



Acemoglu and Robinson?



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# Acemoglu and Robinson

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- ❖ Without good politics: no good policies
- ❖ With good politics: good policies will follow
  - ❖ Underlying assumption: politicians know what they need to do develop their countries. The main reason they don't do them is because they worry that development would undermine their private interests.
  - ❖ French revolution is their standard example of a breakthrough.
    - ❖ That was when?
- ❖ This is why it is very difficult to reform bad institutions
  - ❖ But, in this view, it is the only way to get there.
  - ❖ Collier: “reintroduce imperialism”
  - ❖ Romer: Contract out control



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# Transplanting good institutions?

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- ❖ The US legal system builds on a long history of individual judgments
  - ❖ In reaction to specific issues that no one had anticipated
- ❖ And US legislatures are governed by traditions that evolved over time
- ❖ In other words,....?



# Against determinism



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# Leaders Matter

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- ❖ In a deterministic world, leaders do not matter much. Acemoglu and Robinson give the example of KA Busia, leader of Ghana (69-72), who failed miserably in implementing “good” policies despite his best intentions and support from outside since they were going against the interest of dominant groups.
- ❖ Yes, leaders seem to matter: e.g., Jones and Olken (2005): accidental death of leaders change the course of countries.



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# institutions vs Institutions

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- ❖ Likewise specific formal rules would make no difference in a purely determinist world... but often they do
- ❖ Mandated representation of women affect political decisions, short and medium term outcomes, and beliefs
- ❖ Elections in China: Qian and Patro-i-Miguel study what happens after a village starts holding elections:
  - ❖ The village chiefs are more likely to relax unpopular central policies, such as the one-child policy
  - ❖ The reallocation of farmland, which happens from time to time in Chinese villages, is more likely to benefit non-elites



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# The long term impacts of small accidents

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- ❖ Beyond policies or large commotions, seemingly small accidents also have long reach.
- ❖ Dell (2012): Mexico drought in 1907-1910 continues to affect outcomes today, through higher insurgencies and more ejido distribution during revolutionary period.
- ❖ Hornbeck and Naidu (2012): Mississippi floods and exodus of blacks led to modernization of agriculture in the South.



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# Where does all this leave us?

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- ❖ This cannot quite settle the question of determinism
  - ❖ In the end one could always say that these changes are irrelevant
  - ❖ That the big things persists
  - ❖ And that these effects of shocks are just shifts in timing, not in content
- ❖ The problem is that we are mostly arguing over one data point
  - ❖ White colonies are doing better than non-white colonies
    - ❖ Culture or institutions: Not actually resolvable



# A perspective on political economy



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# A call to inaction?

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- ❖ Should a pragmatist give up on development for fear of helping the bad guys? Or should she/he try to improve outcomes from her/his perspective (social scientist, policy makers, activists) without being too strategic?
- ❖ At the same time, if you think that the politics is right should you also walk away, because the politicians will figure out the right things to do (Easterly)?



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# Getting better

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- ❖ By and large, during the twentieth century, things got better in the developing world (Kenny, 2011).
- ❖ Infant mortality dropped by a third in SSA between 1960 and early 2000s.
- ❖ The Indian caste system's:
  - ❖ Economic relevance is declining sharply (median wage gap between SC and non SC was 36% in 1981 and 21% in 2004-2005 (Lahiri et al., 2012); Dramatic convergence in public good access in SC and non SC villages (Banerjee and Somanathan, 2007)
  - ❖ Cultural relevance persists but is more and more horizontal (Banerjee et al., 2012).
  - ❖ Political relevance increases, but in a competitive “ethnic” way (Banerjee and Pande, 2013)
- ❖ Other example of erosions of traditional norms and dominance: Bangladesh.
- ❖ Decline of inequality in Latin America (Lustig et al., 2013).



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# Politics and culture can change

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- ❖ In the determinist view, politics and culture change at their own pace, and there is little that can be done to alter or accelerate this change: no scope for social engineering...
- ❖ We will see plenty of evidence that politics can substantially improve as a result of intervention:
  - ❖ Fujiwara (2012): Electronic voting, enfranchisement, and outcomes.
  - ❖ Callen and Long (2013): preventing voters' fraud in Afghanistan.
  - ❖ Voter mobilization (Banerjee et al. 2009; Fujiwara and Wanchekon)
  - ❖ Voter information (Ferraz and Finan 2008; Banerjee et al. 2010)



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# We are sometimes too suspicious

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- ❖ Villagers in Indonesia were asked to rank other villagers in order to identify the poorest who were to get benefits from the government
- ❖ We were very worried about corruption so a random group of villages had the whole village rather than just the village leadership doing the ranking (very costly)
- ❖ No difference in targeting between the two



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# And this suspicion distorts our priorities

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- ❖ However we found that those who were randomly chosen to be ranked early were ranked much more reliably – villagers seem to know who was poor
  - ❖ And the process of ranking tired them out
  - ❖ Something we had not considered



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# And further

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- ❖ We then studied “elite capture” in other social programs
  - ❖ Relatives of elites above the cutoff were somewhat more likely to get the interventions (8 percentage points max, 20%)
  - ❖ The share of elite relatives is 15%
  - ❖ They are 9% richer
- ❖ The net welfare loss is 0.3%
- ❖ Compared to better data collection where the gains can 30%+



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# Of course

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- ❖ It could be: this good news exists because none of these interventions matter: the ruling elite tolerated the changes because they were inconsequential (too narrow or too small scale).
- ❖ Hard to falsify...



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# On the other hand

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- ❖ This very pessimistic theory
  - ❖ Assumes that “bad” politicians have no political incentives to do good things
  - ❖ Assumes that elites are an homogenous group: intra elite competition opens a windows for non elite to squeeze in
  - ❖ Assumes that politicians (good and bad) are omniscient
  - ❖ And have perfect control over the outcomes



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# Examples: intentions vs outcome

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- ❖ Suharto was the dictator of Indonesia for 31 years
- ❖ He invested massively in education
  - ❖ In part to win popularity
  - ❖ In part because he wanted to be remembered by history
  - ❖ Partly created a middle class that eventually wanted him gone and pushed him out
- ❖ Indira Gandhi in India
  - ❖ Restored democracy because she expected to win the election..



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# Good intentions are sometimes the problem

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- ❖ The health administration of the state of Bihar in India decided that they wanted to do health checks on all children (weighing, blood draws etc.)
- ❖ They decided that they would send a team of government doctors and nurses to each school to do it.
- ❖ Anjini Kochar calculated the number of children each team would have to measure every day.
  - ❖ It was completely infeasible to do the tests that were mandated.
  - ❖ But no one who designed the scheme had bothered to do the calculation.
- ❖ Nothing except weight got measured.



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# In defense of (cautious) policy activism

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- ❖ I believe that, as economists, our main job remains to stick up for policies, which, based on economic analysis and the best data possible, are expected to improve the efficiency of the government and the welfare of the people without assuming a priori that they will always turn in favor of the elite.
- ❖ This does not mean that we should ignore institutions, culture, politics or other implementation constraints when we make such recommendations: Just that those constraints (and opportunities) may be much more specific than the overall institutional environment of a country.
- ❖ Need to be eclectic in the indicators in what the political constraints may be (human capital and organization of bureaucracy are constraining factors as much as corruption) and in the levels at which we look at them
- ❖ This may not help formulating grand theories (or it will take time...). But it may guide practical action right now.



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# A specific example

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- ❖ Besley-Persson: Origins of State Capacity
- ❖ The United States first introduced a form of income taxation in 1861 during the Civil War, and the Internal Revenue Service (IRS) was founded on the back of this with the Revenue Act of 1862.
- ❖ US and UK significantly extended their income tax systems during the First and Second World Wars
- ❖ In Britain, for example, the pay-as-you-earn method of tax collection was introduced in 1944.
- ❖ Does this generalize?
  - ❖ They report correlations between share of years when the country was involved in a war between 1816 (or independence, whichever is later) and 1975 and measures of state capacity



	Private credit to GDP (1)	Ease of access to credit (country rank) (2)	(3)
Incidence of external conflict up to 1975	0.510*** (0.143)	0.647** (0.191)	
Incidence of democracy up to 1975	0.953 (0.059)	0.110 (0.267)	
Incidence of parliamentary democracy up to 1975	0.001 (0.063)	0.145 (0.114)	
English legal origin	−0.009 (0.033)	0.068 (0.057)	
Socialist legal origin	—	0.098 (0.111)	
German legal origin	0.406*** (0.120)	0.295*** (0.064)	
Scandinavian legal origin	0.112*** (0.041)	0.204*** (0.067)	



	One minus share of trade taxes in total taxes (1)	One minus share of trade and indirect taxes in total taxes (2)
Incidence of external conflict up to 1975	0.762*** (0.250)	0.598*** (0.241)
Incidence of democracy up to 1975	0.143 (0.077)	−0.078 (0.100)
Incidence of parliamentary democracy up to 1975	0.031 (0.083)	0.122 (0.103)
English legal origin	−0.038 (0.058)	−0.012 (0.061)
Socialist legal origin	0.136** (0.058)	−0.222*** (0.037)
German legal origin	0.175*** (0.052)	0.196*** (0.090)
Scandinavian legal origin	0.189** (0.077)	0.068** (0.084)



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# In other words

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- ❖ Good institutions evolve out of desperate need
- ❖ When the need is strong enough, the elites bend over to allow it
- ❖ The consequences might not always be in the interest of the elites



Possible issues with this  
evidence?