

Comments

on

The Political Economy of Middle Income

by

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Theory

Data

Back to Theory

# Point of paper

- Some property rights are better than none
- Most societies cannot jump from “the state of nature” to “the social contract”
  - They muddle along in between.
- Important to explore the “in between”
  - Societies tend to spend a lot of time there
  - Matters when industrialization hits

# A model down to basics

- Theory in a nutshell
- Dictator has choice of four regimes
- Annual flow
  - $R, R+(q_u)\Delta_u, R+(q_H)\Delta_H, R+(q_L)\Delta_L$
- Where
  - $\Delta$  is an additional tax provided by a modern sector under three possible arrangements
  - $q$  is the likelihood the dictator is around to get the modern bonus and depends on the firm's decision. Here I take it to be exogenous.
  - Modern sector invests some  $K$  that the dictator can steal
- No commitment

# Solution to the basic model

- Look for what can be sustained.
    - For simplicity we assume  $\Delta_u > \Delta_H > \Delta_L$  but  $q_u < q_H < q_L$
  - More important
    - $q_u \Delta_u < q_H \Delta_H < q_L \Delta_L$
  - Grim trigger type solution
    - Dictator can take the capital and revert to state of nature
    - Or stay on the equilibrium path
    - Depends on  $\beta = 1+r$
  - Basic trade-off involves the capitalized value of different schemes
    - $\frac{R}{r} + K \leq \frac{R}{r} + \frac{q\Delta}{r}$
- $$q_u \Delta_u < q_H \Delta_H < q_L \Delta_L \Rightarrow \beta_u > \beta_H > \beta_L$$
- This, I think is the key result

# Implications of the model

- $\beta_u > \beta_H > \beta_L$
- Impatient dictators (low  $\beta$ ) are more likely to be unable to credibly commit to universal property rights
- But if they are not too impatient, they can commit to partial property rights
- Partial property rights are much better than no property rights
  - $R + q_H \Delta_H > R$
  - There is an implicit similar difference to GDP
- Technical comment
  - I think this all goes through if you avoid the Bertrand competition and just assume that the dictator set a tax on output in the traditional sector ( $R$ ) and different tax on output in the modern sector ( $\Delta$ )
  - The key insight comes from the  $q$ .

# Literature

- In this group
  - Acemoglu & Robinson
    - The early work on Revolution (economic origins...)
    - The later work on broad access to politics and economic activity
  - North Wallis Weingast
    - Natural state and limited order societies
  - Olson
    - Stationary bandit?
  - How is this different?

# Part II Indonesia, Thailand, and Mexico

- Analytic narrative ?
- How well does the evidence fit the theory
- Or
- How well does the theory fit the evidence
- What is in  $\beta$ ?
  - Just the dictator's impatience
  - Thought how about other sources of uncertainty

# Admirals and Generals do property rights



Madagascar President - Didier Ratsiraka  
1975-1993

Introduction provides a contrast between  
Ratsiraka and Suharto  
But the cases do not come back.  
Pity because  
The model claims that the admiral is more  
impatient than the general  
 $\beta_G > \beta_A$   
If true why?

The other difference is ideology  
Both Nationalists  
But Admiral is a Marxist  
The General is not





# Who owns the firms?



The illustrative cases of the Analytic narratives provide many details about the ownership of the modern (cartelized) sector

in Indonesia Tommy Suharto and his unnamed sister

In Mexico, the President of Congress the under-secretary of the treasury, the son of the president,....

In Thailand, it's the king

Self-dealing does solve the over-taxing problem  
AND the political risk, but then is  $q_H < q_L = 1$   
If so different theory.

# Analytic Narratives 30 years of living dangerously

- The value of a model in this context is NOT that it can reproduce the stylized facts in the introduction.
  - Mathematical social sciences are virtually unconstrained in this way.
- It is that produces unexpected connections
  - How does the argument work in the tradable vs untradable sector?
  - Does it matter if the state taxes profits or output?
  - Does it matter if the state has an equity stake?
- One test is do we see evidence of firms actually taking positions against the dictator?
  - Not in Thailand and Mexico.
  - Paper does not discuss the fall of Suharto
  - Oil in Iran, Copper in Chile?