

Discussion of Akerlof; Rijkers et al; Bluhm and Thomsson

By Stuti Khemani

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Three quite different papers, linked by governance

- Legitimacy of leaders and the structure of organizations
- Leaders that capture the state for private rent-seeking
- Role of ethnicity or identity-based groups in governance

On Akerlof (2015):

- Principal faces trade-off between giving a bonus for higher measured output (which increases effort in the unproductive task) versus investing in building legitimacy to be able to give higher-value direct orders to put effort into the productive task
 - Principal wants to pay a fixed wage (regardless of measured output) and give

On Akerlof (2015):

- Market relationship is inefficient—information problem as a traditional source of market failure. Higher λ —greater market failure.
- Solution to market failure is novel: build organizations where leaders have legitimacy to give the socially optimal order
- Suggests a particularly fruitful direction of future work extending this framework:
 - how are leaders selected for tasks that have this particular market failure (observed output is always a noisy signal of actual effort)?
 - Can legitimacy be endogenized/modeled as leader selection?

On Akerlof (2015):

- Model focuses on leaders' own costly actions to bolster legitimacy
- If a little bit of bolstering can be done cheaply, $v'(0)$ is small, there

On Akerlof (2015):

- In the example of above-market wages, the principal pays above market wages to bolster legitimacy: again, inefficiency
- Description of bureaucracy seems very different from the intuition of the model—bureaucracy stifles innovation and creativity by relying on orders from leaders or based on rules. But the extension of the model to the bureaucracy actually assumes that order-giving is optimal because the leader with lower legitimacy has better information, and should be giving orders

On Akerlof (2015):

- What if you have a problem of very low initial legitimacy θ_0 , and very high λ (very high information problem about the true output): no order is given, and the agent exerts unproductive effort. But the model does not yield an implication for bolstering given the fact that λ is so high, since bolstering is modeled only based on the costs of bolstering
- Will society be more likely to choose institutions/organizational structures that address this problem?
 - Incentives in international development agencies to increase lending volumes? Versus flat wages that don't depend on lending, and orders to do what tasks ???
 - how are leaders selected

On Rijkers, Freund and Nucifora (2015)

- Give us more forensic evidence?
 - The 3 firms in the telecommunications sector
 - The 5 firms that are in media markets. What does their market share there look like? Political capture of media to maintain autocratic institutions?
- Efficiency/economic costs of rent-seeking? Is it (relatively) efficient rent-seeking that explains the longevity of the regime?
 - For example, Khwaja and Mian (2005) estimate significant GDP losses (0.3-1.9%) due to political capture in Pakistan

On Bluhm and Thomsson (2015):

- 58 episodes of “slumps” are measured, with longer durations disproportionately drawn from Africa
- Too little variation in this data to rule-out the “Africa effect”, despite authors’ awareness that this is a problem
 - Africa stands out in the world as having the highest levels of ethnic heterogeneity, and political organization around ethnic network
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On Bluhm and Thomsson (2015):

- Does the theory in the paper address that question (mechanisms through which ethnic politics matters)?:
 - Key ingredient in model: ethnic groups fail to cooperate to adopt the policies that are needed for economic recovery because of uncertainty about the post-recovery distribution of income (and power)
 - Post-recovery random shock that impacts probability of expropriation
- Unclear why this particular theory is compelling:
 - one, it seems more intuitive that slumps could directly affect groups unequally (as opposed to the same, as in the model in the paper) and change the balance of power, or prompt executive appropriation.
 - two, model is not clear about what policy characteristics are needed for economic recovery out of a slump, and how ethnic politics delays the adoption of those policies?

On Bluhm and Thomsson (2015):

- What policy characteristics are needed for economic recovery out of a slump, and how does ethnic politics delay the adoption of those policies?
 - In previous literature, delays driven by different policy preferences between political groups about the size and role of government
 - What policy instruments exist in poor economies to come out of slumps? Are slumps and recovery in these economies largely driven by what happens in external, global markets, including international aid flows?
 - Ethnic politics may play no role in delays, but recovery from slumps in economies that have low public goods and poor resources may be delayed because these are poor economies to begin with that find it much harder to deal with economic shocks

