ELITE CAPTURE:
A POLITICAL ECONOMY FRAMEWORK

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ROAD MAP

1. **Institutions and Growth**
2. Policy-determination Process

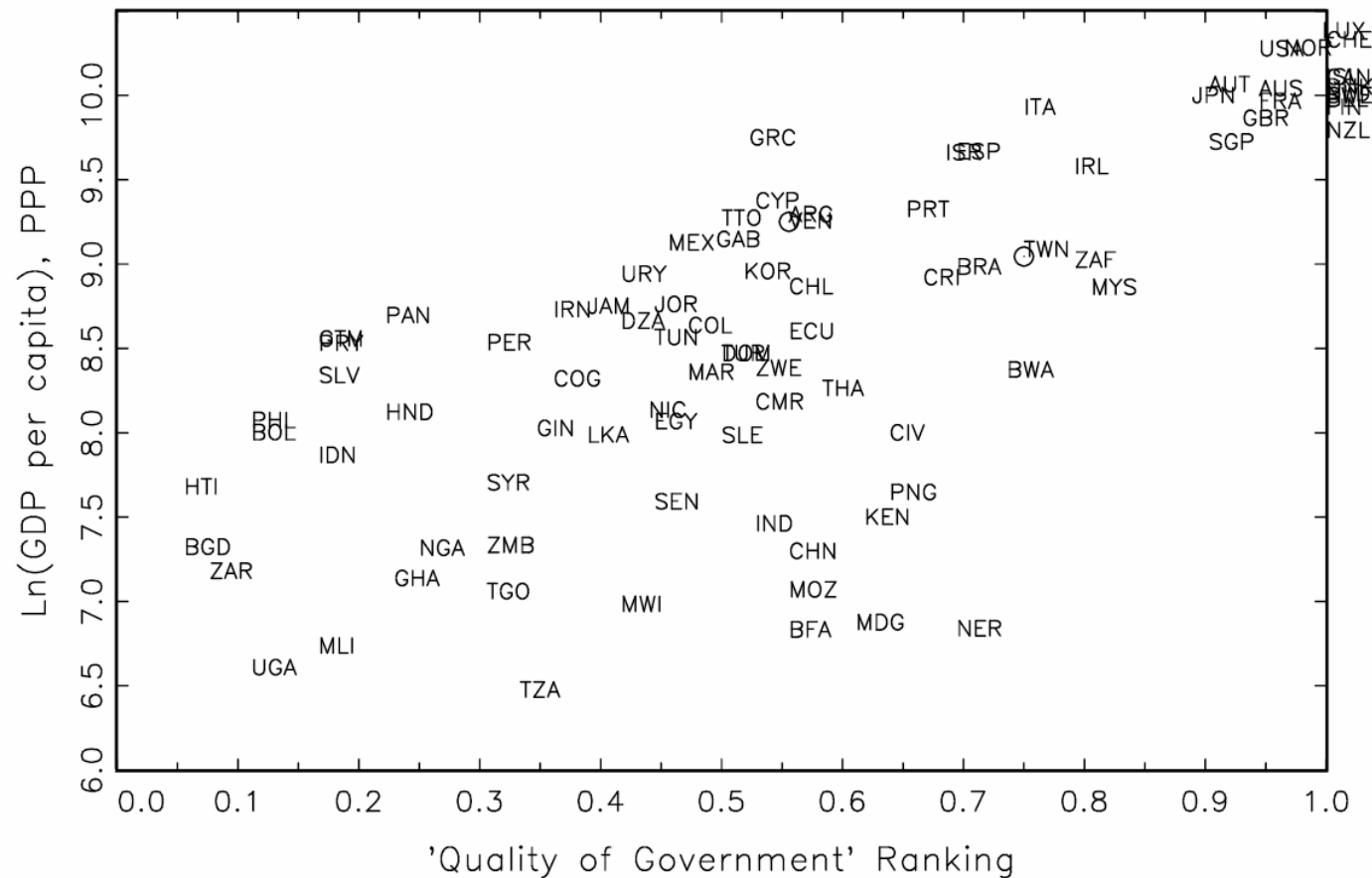   - Accountability
   - Aggregation of preferences

3. Elite Capture
4. Dynamics of Power and Economic Policy

5. Conclusion of sorts

INSTITUTIONS AND GROWTH

- Over the last couple of decades, it has become clear that traditional accounts of economic growth purely as a function of economic inputs and technology are incomplete

- Research, and with it policy at the international institution level, does now recognize the importance of institutions as the "fundamental cause of growth"

- Two issues for policy recommendation:

    1. What do we actually mean by the word "institutions"?
    2. How does the link actually work?

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INSTITUTIONS AND GROWTH

Pritchett and Werker, 2012

INSTITUTIONS AND GROWTH
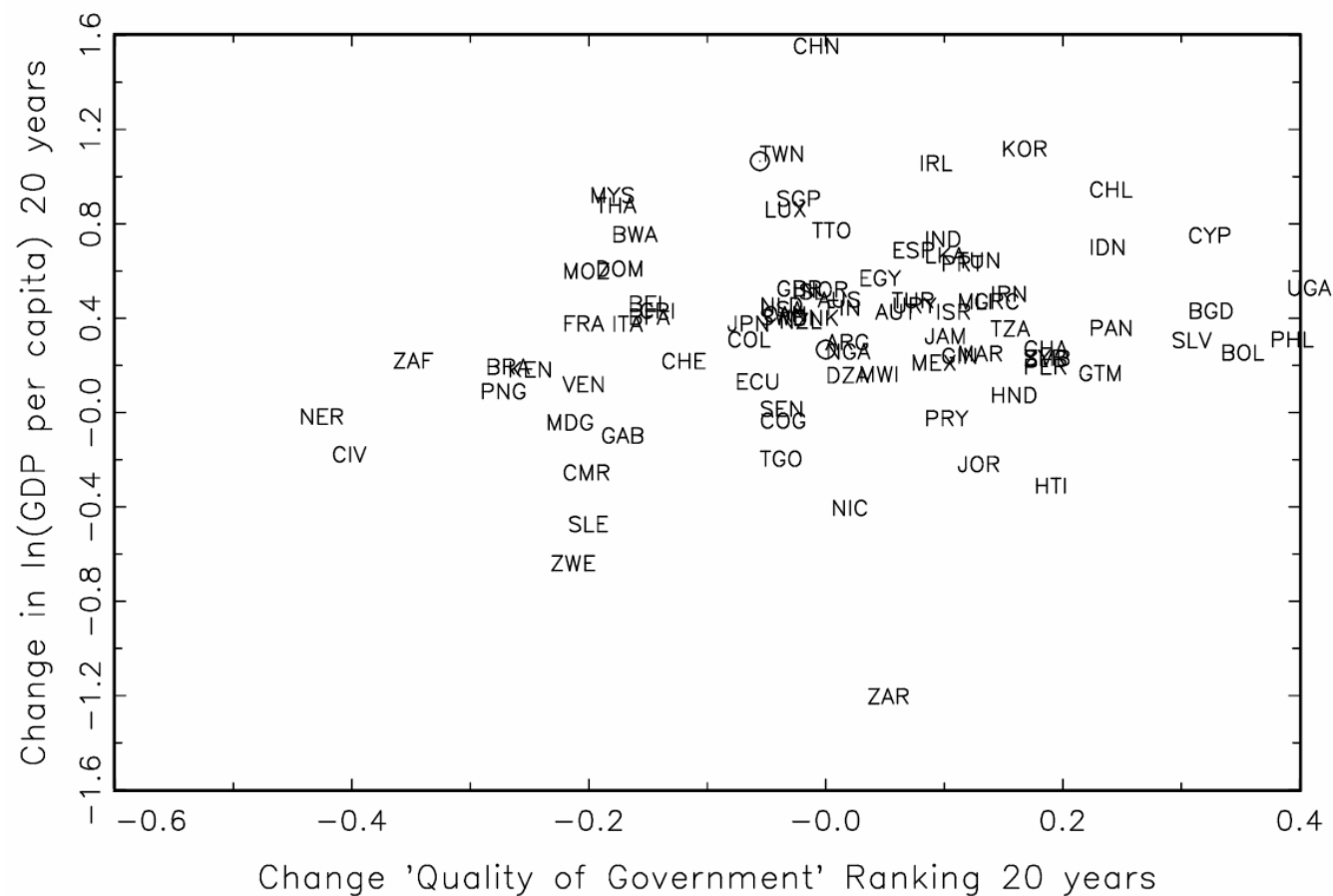
Pritchett and Werker, 2012

INSTITUTIONS AND GROWTH

- It seems that the direct relationship does not yield immediate returns

- This can be either because:

  1. The relationship is very long-term
     - Rather possible, since growth in developing countries is very volatile
  2. Measurement of institutions is faulty at the aggregate comparative level
     - Context-dependent
     - *de facto* vs *de jure*

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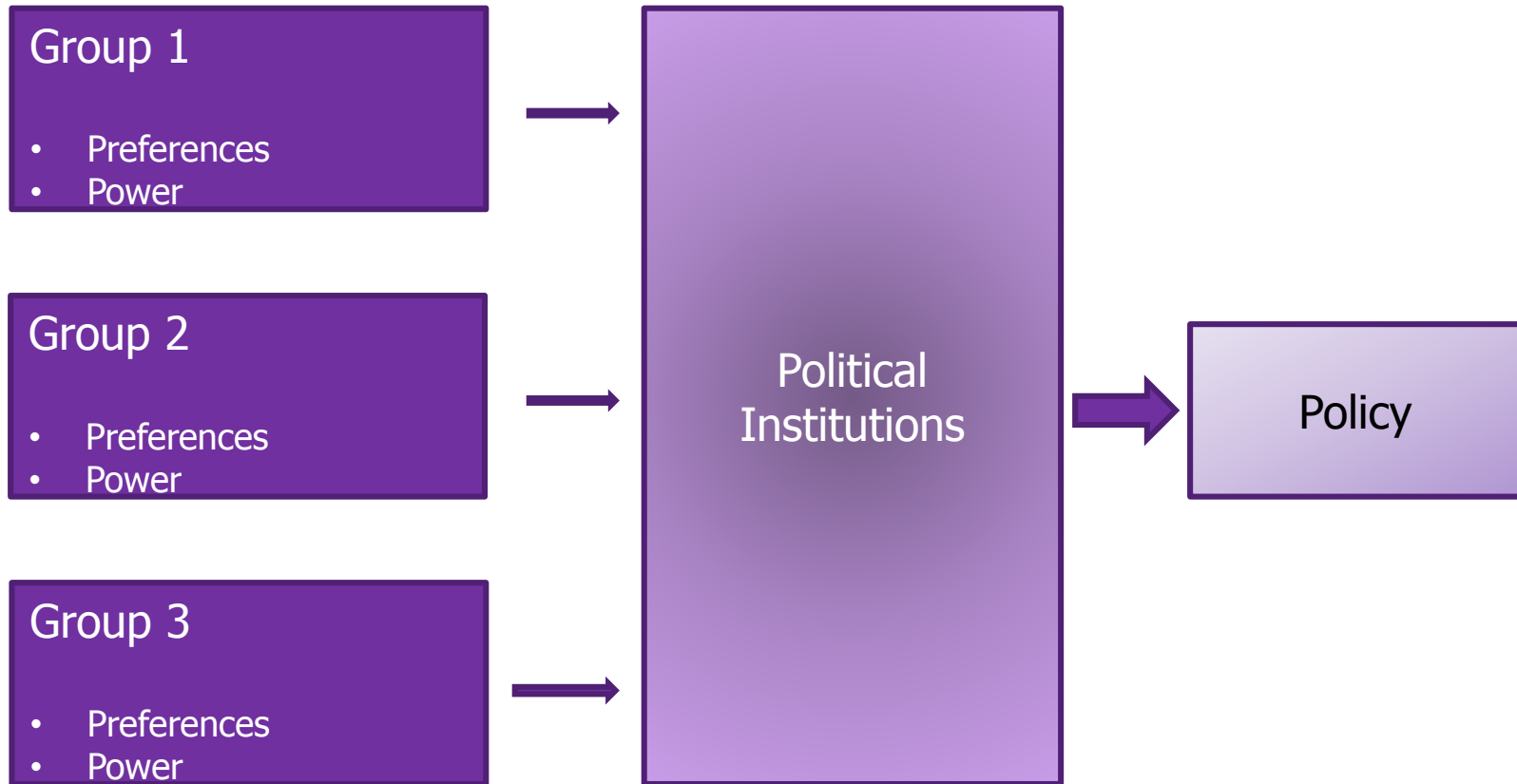
POLICY-DETERMINATION PROCESS

- The concept of Institutions is very malleable

    - Rules of the game
    - Humanly created devices that determine expectations
    - State Capacity
    - Property rights
    - Autocracy vs Democracy

- To add more precision I will focus on the policy-determination process

POLICY-DETERMINATION PROCESS

- The Policy-Determination Process refers to the mapping from the power distribution and preferences in society into actual government output (policy):
  - Social/Economic Framework:
    - Property rights
    - Regulation
    - Conflict management
    - Macroeconomic management
  - Service provision:
    - Health
    - Education
    - Social Insurance

POLICY-DETERMINATION PROCESS

Group 1

- Preferences
- Power

Group 2

- Preferences
- Power

Group 3

- Preferences
- Power

→

Political Institutions

→

Policy

POLICY-DETERMINATION PROCESS

- When dissatisfaction with government output, two possible reasons

  1. Power/Preference distribution in society

  2. Faulty policy-determination process

- Taking Power/Preference as given, what can we say about the process?

POLICY-DETERMINATION PROCESS

- The political institutions that govern this process have two key functions:

  - **Accountability:** keep policy-makers' interests aligned with those of the citizens

  - **Aggregation of preferences:** given that different groups of citizens have different interests, institutions must provide a means of aggregating up to direct policy-makers

ACCOUNTABILITY

Focus on conflict of interest between policy-maker and citizens

1. One incumbent
2. Identical citizens
3. Citizens choose whether to keep the incumbent or pick someone else

- Accommodates incentive and selection effects
  - **Incentives:** future rents of power induce good behaviour today
  - **Selection:** poor outcomes inform citizens of politician's ability

PREFERENCE AGGREGATION

Focus on conflict of interest between citizens

1. Groups with Different preferences and Power
2. Details of aggregation depend dramatically on **mechanism** and **preference cleavage**

   1. Elections
   2. Deliberation
   3. Typical cleavage: rich vs poor

- How does the final outcome reflect preferences and power of the different groups?

FAILURES IN ACCOUNTABILITY

- **Information in elections:**

  - Voters do not know what politicians do or are responsible for
  - More information ⟶ better accountability?
  - IGC research (Uganda Parliament, Delhi slums, Sierra Leone) yields inconsistent results
  - Multiple equilibria

- **Procedural flaws:**

  - Rigged electoral processes
  - IGC research (Afghanistan, Mozambique)

- **Clientelism:**

  - Excludability and discretionality
  - IGC research (India, Mozambique)

FAILURES IN PREFERENCE AGGREGATION

- **Ethnic Politics:** distributive issues take supremacy over public goods

  - Violent conflict
  - IGC research

- **Information:** preferences might not be well-defined because of lack of information

  - IGC research

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   - Accountability
   - Aggregation of preferences

3. **Elite Capture**
4. Dynamics of Power and Economic Policy

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ELITE CAPTURE

Wikipedia wisdom:

"Elite capture is where resources transferred designated for the benefit of the larger population are usurped by a few individuals of superior status - be it economic, political, educational, ethnic, or otherwise.

Individuals or groups take advantage of government programs aimed at distributing resources or funds to the general public by using their elite influence to direct such assistance in such a way that it primarily benefits the elite group."

- Classic cases:
    - Community Driven Development projects
    - Decentralization

- Original use of the term, but by now expanded to a more general capture of the policy process

WHO ARE THE ELITES?

- The literature uses this term sometimes conflating two conceptually different groups

    - **Political Elites:** those with the policy-making power today

    - **Economic Elites:** those with economic rents today

ELITE CAPTURE IN THE FRAMEWORK

- Elite capture falls into the two mechanisms:

  - **Accountability:** political elites that want to be free from the control of the citizenry
    - Build clientelist networks/urban bias
    - Control of media

  - **Aggregation of preferences:** economic elites that want to protect their rents
    - Distort labour relations
    - Secure friendly regulation/crony capitalism

- Often political and economic elites intermix in practice, particularly after some time

- Even when they do not, this can be very costly (populism)

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ELITE CAPTURE

- Two sides to the negative effects of elite capture:

    1. <u>Distributional:</u> clearly, benefits from the intended policies do not accrue to the intended beneficiaries if elites capture them

    2. <u>Dynamic:</u> elite capture generates <u>barriers to entry</u> to both the political or economic market
        - Competition essential
        - Entrenching of elites
        - Dynamic costs likely to be far larger

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   • Accountability
   • Aggregation of preferences

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POWER DISTRIBUTION

- The distribution of power is therefore dynamic

- Political Economy issues are difficult to approach from a policy recommendation perspective

- Should we give recommendations based on current distribution of power, taking it as given?

- Should we take into account effects of economic policies on distribution of power?

COPING WITH ELITES

- Traditionally economic policy recommendations would completely ignore these issues: focus on fixing market failures

- Currently focus seems to be to take these issues into account and cope with the structure of power distribution in a country as it is given (static view)

- This focus is useful to:

  - To locate the main political economy constraints
  - To decide if it is worth the effort of supporting certain policies
  - To decide if engagement is beneficial at all

COPING WITH ELITES

- This approach is best described as a feasibility study:

  "should we push for economy policy X?"

- This naturally leads to service provision: basic education and health seldom have political implications so are not resisted

- Problems:

  1. Most new economic policies will reallocate rents, and thus power
  2. What to do if the feasible set only contains policies that entrench the current elites?

DYNAMIC ISSUES

- Openness is typically good for growth

- But say assets of current elites very complementary to openness

- Openness will create burst of growth, but will entrench the elite

- Result: worse foundation for inclusive and sustainable growth

- Example: Russia

- Example: Gatekeepers

CONCLUSION OF SORTS

- Elite capture results from failures in the political process in both its roles: accountability and aggregation of preferences

- Elite capture depends on power, and power depends on economic policies in place

- Therefore there is an unavoidable dynamic element

- Economic Policy advisors typically shy from such political analysis

- The dynamic view suggests that at least there should be a Hippocratic check