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?
INSTITUTIONS AND GROWTH

Pritchett and Werker, 2012
INSTITUTIONS AND GROWTH

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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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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)
ELITE CAPTURE

• Two sides to the negative effects of elite capture:

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

2. **Dynamic**: elite capture generates *barriers to entry* to both the political or economic market
   • Competition essential
   • Entrenching of elites
   • Dynamic costs likely to be far larger
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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