

Comments on “Pampered Bureaucracy and Trade Liberalization”

Tibor Besedeš

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- Can trade liberalization increase economic inefficiency?
- Yes
 - when elites increase the ranks of the pampered bureaucracy to prevent the middle class from revolting and expropriating the elites' rising wealth
- Pampered bureaucracy
 - demanding entry criteria, middle class need only apply, with highly protected lifetime employment with limited productivity incentives
- But trade liberalization can also increase economic efficiency

- Endowment model of international trade
- Three goods: commodities, food, and manufactures
- Three groups: the elite, the middle class, and workers
- The middle class can be entrepreneurial and establish firms or join the ranks of the bureaucracy
- Elite's wealth is based on its own labor income and profit from commodity production
- Three factors: land, labor, human capital
- A country with a relatively large endowment of land and labor will have comparative advantage in primary products

- Trade liberalization in a country with comparative advantage in primary products
 - Increases the price of primary products
 - The wealth of the elites rises
 - Revolutionary incentives increase
 - Incentives to prevent the said revolution increase as well
 - The elite increases the size of the bureaucracy
 - Becoming a part of the bureaucracy is insurance for uncertain entrepreneurial activity
 - Increase in the size of the bureaucracy decreases the number of firms
 - Trade liberalization increases economic inefficiency
- In a country with comparative advantage in manufacturing, trade liberalization promotes economic efficiency as it reduces the wealth of the elites

Empirical Results

- Estimation tightly connected to the theory
- Regress size of bureaucracy between 1972–2008 on
 - trade openness
 - (revealed) comparative advantage
 - other stuff
- Obtain the predicted signs
- In countries with comparative advantage in primary products, increased trade openness results in increased spending on bureaucracy
- Results stronger for developing countries
- The lack of significance on β_1 for developing countries may be due to few of them having a comparative advantage in manufacturing

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 - Could they alternatively promote some in the middle class into the elite to prevent a revolution?
 - A different channel for keeping the peace/power

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 - Elite = party in power
 - Revolution = voting the new guys into office

- The model works best for Latin American, African, Middle Eastern countries
 - Transition economies may be a different animal
 - The empirical result suggests as much
 - Transition economies have increased their bureaucracies during the transition
 - The elite (party in power) staves off revolution (loss of power through elections) by buying votes
 - Votes bought by increasing the number of positions in bureaucracy

- Trade openness
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 - Is trade openness a good measure of liberalization?
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- Measure of bureaucracy
 - Central government spending on salaries and wages
 - Can you find a physical measure – number of employees?
 - ILO has data on various measures of the public sector

(Late Night) Deep(er) Thoughts

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 - Become more efficient
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- The rich (comp adv in manufacturing) make off like bandits
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- Should countries with comparative advantage in primary products never liberalize?
- Is there some channel through which the loss of efficiency can be offset?