Comments on “Pampered Bureaucracy and Trade Liberalization”

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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
Theoretical Results

• 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 $\beta_1$ for developing countries may be due to few of them having a comparative advantage in manufacturing
The main channel of action for elites is to increase the size of pampered bureaucracy

- 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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Terminology selling the paper short?
- 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
Thoughts \ Comments \ Suggestions

- Trade openness
  - Measured as the ratio of imports and exports to the GDP or with a gravity-based measure of trade exposure
  - Is trade openness a good measure of liberalization?
  - The model is about trade liberalization – a decrease in the costs of trade
  - Trade openness can increase without (much) trade liberalization
  - Aggregate tariffs or transportation costs?
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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
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- Become more efficient
- Exploit the trading partner by making them even less efficient
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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?