Infrastructure Reforms and (as) Redistribution

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Agenda

- Redistribution and *status quo* resilience
- Political feasibility of reforms
- Idea 1: Development trap
- Idea 2: Supply and demand of social norms
- Idea 3: The role of reciprocity
- Idea 4: The role of leadership
- Idea 5: Reforms and herd behavior
- Final remarks

Redistribution and *status quo* resilience

- Reforms needing phases tend to be time-inconsistent
- Key stakeholders find it difficult to exchange certain costs for expected flows of uncertain gains. Add loss-aversion!
- The problem does not disappear if reform gains were securitized and paid lump-sum to compensate "losers" (Dixit-Londregan)
- Problem exacerbated in the presence of cross-subsidies, a recipe for political capture and manipulation (Guatemala, Foster and Araújo). Entrenchment of vested interests

Political feasibility of reforms

- Coalitions favoring reforms do not emerge easily due to collective action problems
- An external shock is needed to weaken the *ancien regime* and align some interests which would otherwise remain on different sides
- The role of quick and tangible results (Haiti) and external financing to mitigate redistributional issues (De Janvry)
- Self-enforcement and change in beliefs

Idea 1: Development traps

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Government
commitment to
reform

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Societal support
to reform

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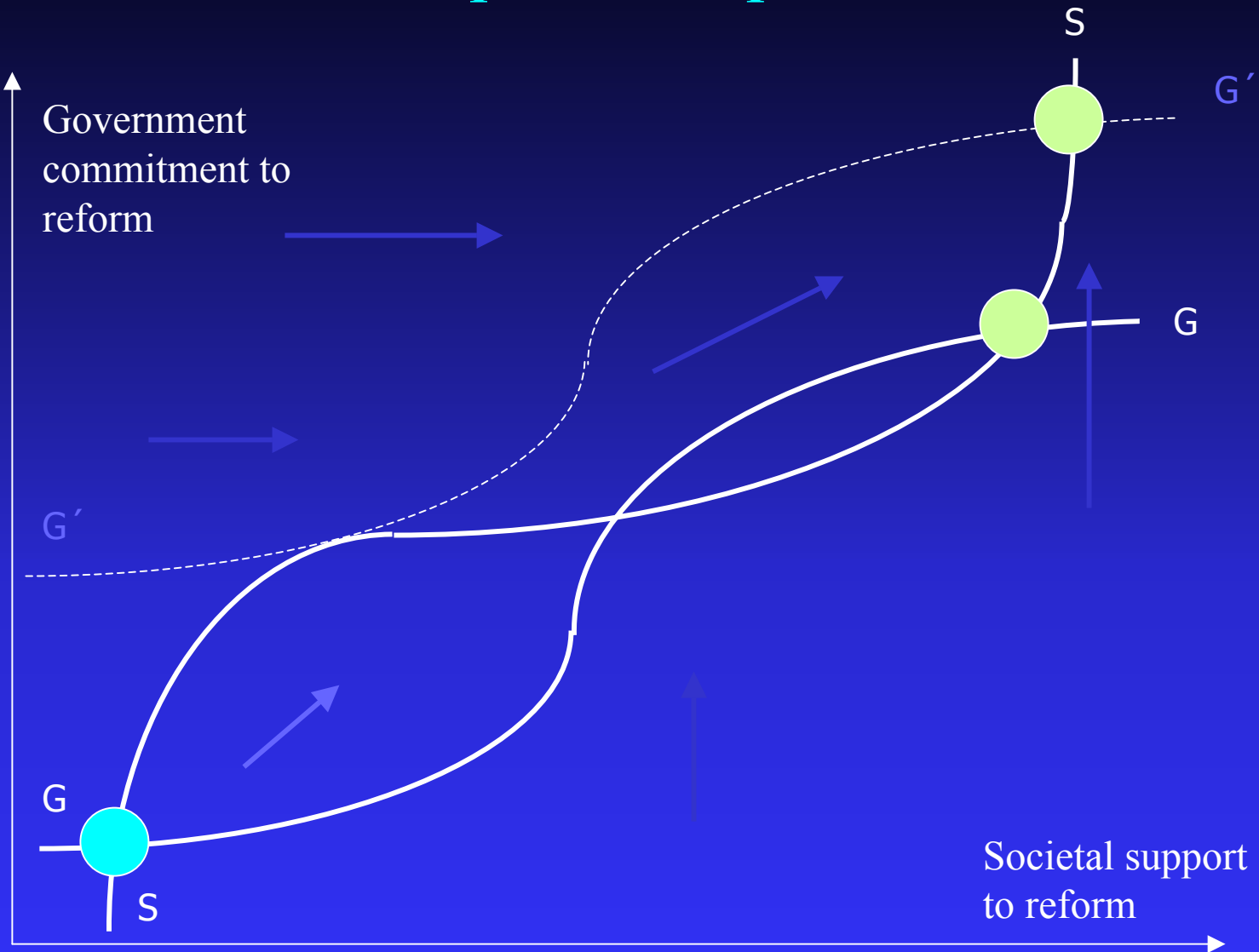
Idea 2: Supply and demand of social norms

- Ellickson. Supply side: norm entrepreneurs, enforcers, self-motivated leaders, opinion leaders. Demand side: cheer leaders, opinion leaders, appreciative experts
- Role of costless moral reward to supply side: the audience confers positive or negative steem to leaders
- *What happens if everybody accepts Kaldor-Hicks redistributional consequences and society is thick in interactions*
- In addition to external shocks, other events may trigger changes in norms: changes in group composition, herd behavior and reduced transaction costs in following the norm

Idea 3: The role of reciprocity

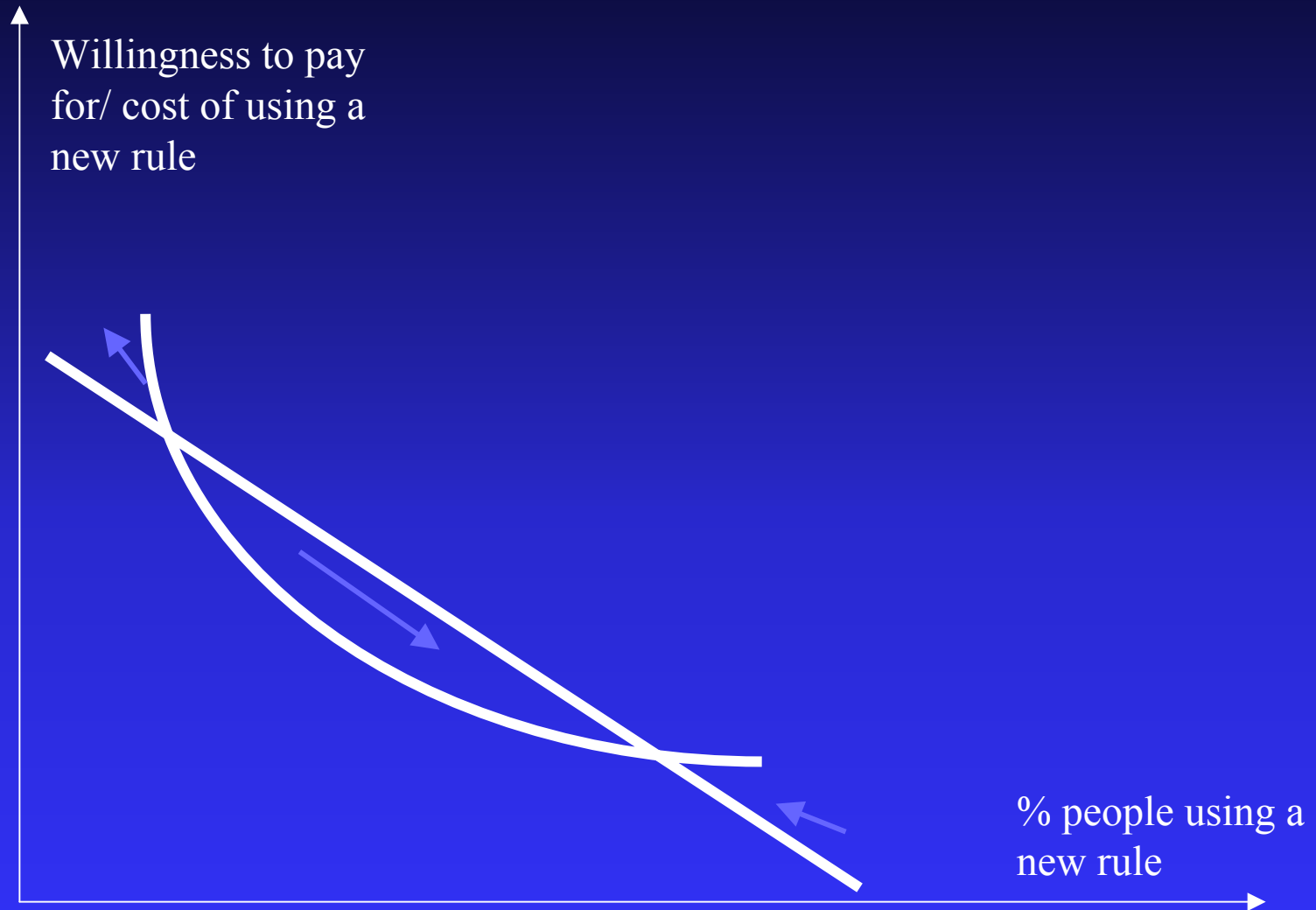- Leaving a prisoner's dilemma by changes in ethics (Binmore):

$$(2, 2) \quad (0, 3) \qquad\qquad (2 + 2r, 2 + 2r) \quad (0 + 3r, 3 + 0r)$$

$$(3, 0) \quad (1, 1) \qquad\qquad (3 + 0r, 0 + 3r) \quad (1 + 1r, 1 + 1r)$$

Idea 4: The role of leadership (Cooter)

Willingness to pay for/ cost of using a new rule

% people using a new rule

Idea 5: Reforms and herd behavior

- Basu. Sunstein. Propagation of rumors, spread of diseases
- Social network structure
- Self-enforcing propagation mechanisms
- Examples: a credible threat of exclusion/punishment; imitation; synchronous change in beliefs after extreme losses or apperance of huge opportunities under cooperation

Final remarks

- Challenge 1: propose a new paradigm for reform design focused on redistributional issues

- Challenge 2: make it practical

- Challenge 3: deploy it in real cases in electricity and water and sanitation