

Discussion of  
"Why Doesn't Capitalism Flow to Poor  
Countries?"  
Rafael Di Tella and Robert MacCulloch  
Brookings Conference

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Stanford University and NBER

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## Conventional View

- Vested interests oppose free market reforms.
  - E.g. Parente and Prescott's "Barriers to Riches"

## Their Hypothesis:

Corruption  $\Rightarrow$  anti-capitalist sentiments, policies  
Plausible, novel. Obviously important.

## Evidence:

- Across-individuals, across-time within countries

# Causality?

- What causes variation in perceived corruption?
- Natural experiments: what happens after scandals?
- Alternative interpretations of their evidence:
  - Across time, scandals bad for incumbents, not good for left parties and policies.
  - Across people, left-leaning individuals just perceive more corruption.

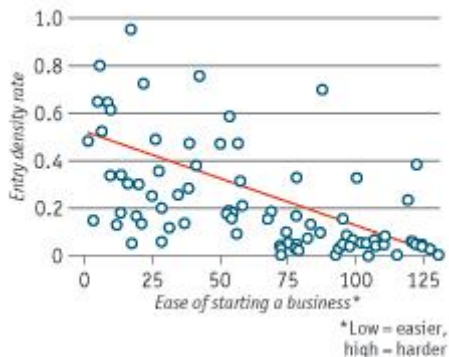
# Regulation of Entry

- Does this really punish capitalists?
  - Entrants surely, but incumbents?
  - Djankov et al. say the opposite ("Regulatory Capture")

So a bad example that goes the wrong way.

- Similar to import barriers
  - (they help incumbents, rather than hurt them).

# Entry rates vs. Regulation of Entry



Source: World Bank Group Entrepreneurship Survey (2008)

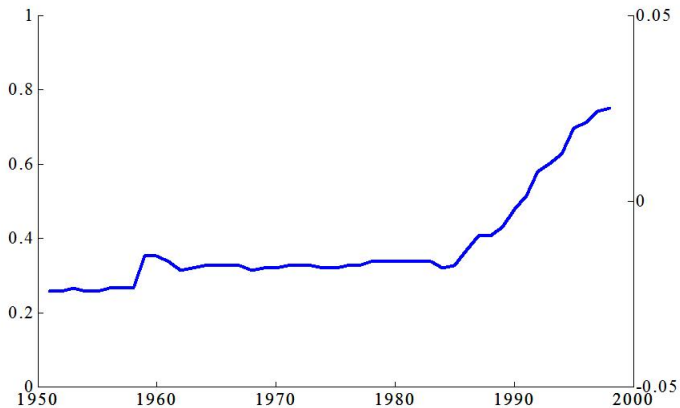
# Better ways to punish corrupt capitalists?

- State ownership (vs. privatization)
- Progressive tax rates on firms, individuals
- Anti-trust policies
- Last but not least . . . Anti-corruption policies!

# Do people believe capitalism maximizes the pie?

- Economists mostly do.
- But lots of disappointment in L.A. reforms.
- Many credit government intervention for East Asian growth.
- Growth on policy changes yields mixed results.
- Cleaner studies more clear cut
  - e.g. La Porta and Lopez-de-Silanes, Feyrer

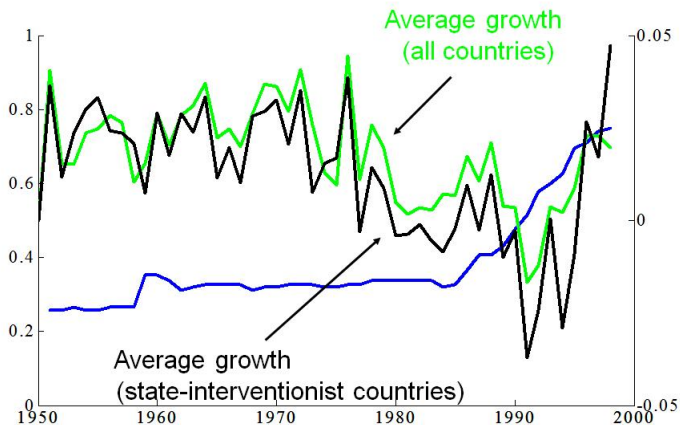
# Share of "Market-Oriented" Countries



Source: Sachs and Warner



# Growth in All vs. Interventionist Countries



Source: Buera, Monge and Primiceri

# Do people believe capitalism maximizes *their own slice* of the pie?

- Labor income vs. capital income
- Rich vs. poor
- Possible divergence by ethnicity, region, nationality
- Goldberg and Pavcnik JEL says openness increases inequality in developing countries
- Rising inequality in China, India amidst growth.