

Abstract

"The political economy of redistribution and institution building in elite-dominated economies"

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This paper explores the optimal redistribution properties of a 3-class economy controlled by an Elite. The analysis allows for institutional changes through an exogenous or endogenous probability that the Elite will lose political control and includes 'state capacity' building as a control variable. The analytical framework is specified in a way that is general enough to synthesize the recent theoretical literature on development and institutional changes. Results show the particular importance of the structure of the economy – i.e. the complementarity or substitutability of the Elite and other groups in production – and the nature of political threats on the power of the Elite. The latter may explain why the Elite may not invest in improving the overall efficiency of the economy through state capacity building.