The politics of entry

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Conclusion

This thesis describes how politicians shape the level and composition of entry. Political choices affect licensing or the distribution of loans and thus determine market access. Citizens recognise politicians' power to determine the level and composition of entry and form interest groups to jointly offer political contributions in exchange for preferential treatment. The effectiveness of these offers depends on the influence of consumers, who suffer from political limitations on entry. This ability to question and constrain political action is labelled political accountability, which drives many of this thesis' results. The three chapters all apply the same theoretical framework to distinct political choices affecting the outcome of the clash on optimal entry between consumers and entrepreneurs.

Chapter two considers the political choice to not enforce a rule, control entry directly and be illegally bribed *or* commit to a rule, control entry indirectly via this rule and be legally lobbied. It investigates the formation of interest groups under both 'selection technologies' and shows that being bribed results in higher political contributions and a lower level of entry than being lobbied. The explanation lies in the free-riding advantage that a rule creates for those citizens with 'strong' characteristics easily satisfying the rule. As opposed to a situation without enforced rule, the 'strong' can lobby for a rule allowing them to enter while excluding the 'weak' while the reverse is impossible. In equilibrium, the politician prefers to be bribed when political accountability is low. Beyond a certain threshold the illegality of bribes induces the politician to regulate entry and be legally lobbied. Making lobbying illegal would be counterproductive as it induces the politician to revert to being bribed, reducing entry and increasing political contributions.

Chapter three focuses on access to finance and specifically on the choice between state or private control of banks. The idea is that whoever controls banks decides on who gets a loan and on the intensity of monitoring, determining how much of the loan needs to be repaid. The higher the repayment rate, the greater is the resilience of banks to aggregate shocks and the less likely are bank defaults. State control turns out to be politically optimal for low levels of accountability after which control shifts to the private sector. Upon this transition at intermediate accountability, banks are captured by a small group of entrepreneurs who do not internalise the social costs of bank default. Therefore, funneling of resources and the risk of bank default jump. As accountability rises further, the politician seeks to reduce funneling by lowering political contributions such as to leave more rents when banks are solvent. Therefore, pushing countries to privatise even before they naturally choose to do so leads to an increase in the risk of bank default because the resulting private banks will be captured in weak institutional environments.

In chapter four the population is segmented and the politician may cater to core constituents by favouring their entry independent of their efficiency. The model shows that entry does increase when accountability increases but is most targeted when political accountability is *intermediate*. The intuition is that when accountability is zero, the politician maximises and captures firm profits by allowing a small but efficient set of entrepreneurs to produce. When accountability is perfect the politician maximises production (and consumption) by allowing free and hence efficient entry. Only when accountability is intermediate efficiency does not dominate and entry is biased.

The thesis shows that countries when political accountability is intermediate: politicians start enforcing rules and being lobbied rather than bribed, bank control shifts from the state to the private sector and firm ownership is most biased towards the executive's (ethnic) group.