Abstract of the Thesis titled ‘Protest, Violence and Investments: Essays in the Political Economy of Less Developed Countries’

This thesis attempts to develop a formal literature of the political economy of Less Developed Countries (L.D.C.s) with three different questions- protest, violence and investments with the interlinking theme of coordination failures in collective action and its effects on economic development. The first chapter provides a theoretical analysis of civil society activism and development. When citizen-activists observe a noisy signal about unwilling land losers being evicted by the Government for a development project, they protest against the forceful land acquisition for the project. We find an increasing role of ideological activism to have a positive welfare effect on raising the compensation for the land losers but a negative effect on the chances of the project’s success. In an extended model with political campaigns, ideological activism and Incumbent's politicisation are complementary.

In the second chapter, we formally establish the relationship between political violence and the informal sector. When large sections of the population work in a semi-legal environment of the informal sector needing political protection for survival of livelihood, it gives rise to political clientelism. Violence is the tool through which the political parties send the signal of their de facto political strength to the informal sector workers to gain their support. We find that an increase in the size of informal sector employment, clientelistic benefit and the ideological spectrum of the formal sector voters increases political violence, and also increases the winning chances of the worse performing party, where as a rising competition in the performance among the formal sector voters decreases political violence by both the parties and increases winning chances of the better performer. We also explain the puzzle of why well-performing incumbents engage in high violence in a democracy.

The final model represents a backward economy where the Government invests in a costly effort to switch to a modern sector by attracting capital investments. Investors take investment decisions based on a noisy signal about the overall investment climate of the region. Strategic complementarity in profits resulting from positive externalities from the investments gives rise to a coordination problem, turning investments into a collective action. We establish the conditions under which the roles of local and foreign investors become complementary or substitutes in a poor economy. A political constraint on the Government increases the government’s effort for investments when welfare transfers for ensuring votes are costly, and reduces the effort for cheaper transfers. The findings explain how a poor region with a democratic political system runs the risk of falling into a perpetual low investment trap.

In each chapter, the formal treatment in modelling the coordination and collective action consists of Global Games, which help to solve the problems of multiplicity of equilibria.