

“Land Reform, the Market for Protection and the Origins of the Sicilian Mafia: Theory and Evidence” by Bandiera

Strong Simplifying Assumptions

I thought the idea of analyzing the negative externalities arising from the purchase of protection from the Sicilian Mafia was very interesting. I had some issues with the two assumptions that 1) if the landlord is not protected all of his income is stolen and 2) the mafia can successfully protect a fixed share of total land income. First, the landlord should be able to have option C, which is to have his own protection, either through purchasing their own weapons and setting up fences or forming a pact with his neighbors to retaliate if someone were to steal from them. As for the second assumption, there are obviously some commitment problems with mafia guaranteeing that they will follow through after payment has been received. While a reputation mechanism would explain why deals are honored (the paper does not talk enough about the important role of mafia reputation), the mafia are not bound in the same way an insurance company is to pay claims. However, I don't think that these strong assumptions would materially invalidate the results from the case studies.

“Does Public Insurance Crowd Out Private Insurance?” by Cutler and Gruber

Mitigating Crowd-Out Effect

Some things they could further expand on are the perceived effects of implementing policies that would somehow mitigate the crowd-out effect. By making it more costly to switch from private insurance to public insurance, this would still provide more insurance to those who are less insured while making it less attractive to those with private insurance. Of course this may be harder to monitor, but if there were a way to keep track of an individual's insurance amount and type in the past five or ten years (for children's insurance the cost might be a function of parents' income and the norm of parents' socioeconomic background), this seems like a viable option. Also, I think that Cutler and Gruber's proposed idea of having a waiting period between losing private insurance and qualifying for Medicaid may be problematic because in that intermediate period of time, the government is requiring they stay uncovered, which is a big deterrent to crowding out private insurance, but also a problem for those who suddenly find themselves earning a lower real income and actually need to have public insurance. My proposed way is better because individuals have the added option of paying to switch from private insurance to public insurance without losing coverage for any period of time.