Political Capture and Inequality
Elite Dominated Institutions

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OXFAM, Washington DC, 01/27/16
There is a lot of consensus that inequality of incomes and assets is heavily influenced by the political system which creates and enforces property rights and the rules of the game, manages the education system, regulates market opportunities and the distribution of rents.

A pervasive force behind the creation and persistence of inequality is that these instruments get captured by an elite which can use them to create and perpetuate their affluence.

But permit me to start with a puzzle…
Which Elite?
The Nicaraguan Elite

- Comes in two flavors
  - Traditional ones like Carlos Pellas (Nicaragua’s first billionaire since Somoza), owner of Flor de Caña rum (value of exports 12% of Nicaraguan GDP) who reconstructed their economic interests after 1990.
  - New ones like President Daniel Ortega and his family which created ALBANISA in 2008 (ALBA of Nicaragua, S.A.- ALBA = Bolivarian Alliance of the Americas) with money from the Venezuelan government. ALBANISA has cornered Nicaragua’s petroleum import and distribution markets, become the country’s leading energy supplier and cattle exporter, turned profits on the sale of donated Russian buses, and purchased a hotel in downtown Managua, among other lucrative investment moves.

- A happy coexistence
  - Ortega blocked a 2002 bill from allies of former president Arnoldo Alemán that would have repealed tariffs on imported sugar.
  - Pellas supports Ortega politically.
Who Captured Whom?

- Difficult to say

“It’s the same model that Somoza used ... I’ll let you have your money, and you let me have my politics. It’s an alliance between the old oligarchy and the new oligarchy of Orteguismo.” - Dora María Tellez, former Sandinista health minister (Bloomberg.com, November 4, 2014).

- Tony Killick observed of the political system of Kwame Nkrumah in the 1960s

“Nkrumah succeeded in capturing the lobbies; in making them dependent on him instead of himself on them. But only up to a point, since they still exerted pressures and wrung concessions” Development Economic in Action, 1978, p. 39
Who Governs Managua?

- In the Chicago Becker-Stigler model of capture, organized interests groups in society captured regulators and politicians (coming out the intellectual tradition of pluralism, Robert Dahl’s *Who Governs?*)
- The underlying model of the political system may not be a good one for the US, but it certainly isn’t a good one for the developing world.
We tend to think of the elite control of institutions as being deeply grounded in history where specific extractive institutions, like the Potosí *mita* left long legacies (work by Melissa Dell), and where those who benefitted and controlled land and resources perpetuated themselves in power.

There are some examples

- In Central America (the work of Samuel Stone)
- In Brazil (the research of Fred Finan and Claudio Ferraz)
- In Chile (ongoing research with Francisco Meneses)

Here elites who had an independent existence and elite status outside of the political system capture the system.
Presidents of Central America descended from the Conquistador Cristóbal de Alfaro
## The Political Economy of the Brazilian Northeast

### Brazilian Political Families (thanks to Fred Finan and Claudio Ferraz)

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Where do Chilean Economic Elites go to School?

**Business Elite 2008**
(CEOs of 100 Top Firms in Chile)

- Instituto Nacional: 4%
- Sagrados Corazones: 12%
- Verbo Divino: 10%
- Saint George: 8%
- San Ignacio: 11%
- Tabancura: 11%
- Other Privates: 31%
- Other Public: 10%
- Verbo Divino: 10%

**Institutes:**
- Grange
- Tabancura
Where do Chilean Political Elites go to School?

**Cabinet Members: President S. Piñera**
(First Cabinet 2010)

- Other Privates: 41%
- Tabancura: 5%
- Sagrados Corazones: 18%
- Verbo Divino: 9%
- San Ignacio: 14%
- Liceo. M. de Salas: 4%
- Instituto Nacional: 9%
Political Capture and Inequality in Latin American History
Problems with the Traditional View

- The stasis of the traditional view captures a small part of the variation.
- Consider the impact of the Bolivian Revolution of 1952.
  - The initial impact of this was certainly to displace the traditional elites and induce a large fall in inequality.
  - But 15 years later it was even higher than in 1952 (Revolution and the Rebirth of Inequality, by Jonathan Kelley and Herbert Klein)
  - .. and the old elite had been replaced by a new one (research of Dwight Heath)
  - .. and another new one now?
- If we want to talk about elites we need to face up to the social mobility and entry of new elites who capture the state and then turn themselves into elites.
The Fall and Rise of Bolivian Inequality

Figure 6.7 Estimated income inequality in Bolivia, 1950–1972. Inequality is measured by the

Robinson (University of Chicago)  Political Capture and Inequality
New Patrons for Old
Puzzlingly, many institutions in Latin America do not seem to obviously further the interests of any elites.

Take Colombia

- Most land in rural areas does not have a formal title - Why wouldn't the elite grab all of that?
- Rebel and Paramilitary groups have been a constant in Colombian history and have kidnapped and killed elites - How can that be a good idea for elites?
The Lack of Formal Land Titles in Colombia

Proportion of land that lacks a formal title by municipality in Colombia

[Map showing the proportion of land that lacks a formal title by municipality in Colombia]
None of this is to deny the existence of elites nor the fact that they try to configure institutions in their favor, thus creating inequality.

I think the challenge is to conceptualize properly the way the institutional equilibrium has evolved in Latin America in such a way as to facilitate and perpetuate capture.

An initial observation is that this equilibrium was in many ways informally constituted during the colonial period.

- The Spanish Crown exercised control patrimonially over the colonies, for example by refusing to grant proper property rights in land.
- Colonial elites avoided the implementation of rules and regulations - obedezco pero no cumplo (I obey but I do not comply)
- The juxtaposition of these two forces was a legacy of a weak state (by which I mean a state which is capable to implement laws and rules, impose a monopoly of violence, raise taxes, provide public goods).
Informally constituted rules (some might say ‘the absence of the rule of law’) and state weakness go hand in hand and reinforce each other.

I conjecture that this is what makes political institutions so easy to capture in Latin America.

One reason this is easy is that society is drastically different from a pluralist conception. When most people are not organized anyone who does become organized can exercise a great deal of influence (recently the PT, MAS, the Sandinistas, the Chavistas)

The fragmentation of society reflects the weakness of the state (Charles Tilly *Popular Contention in Great Britain*)
Capturing the Argentine Provinces

A Weak State allows Elites to Consolidate themselves: Term Limits (or not..) for Argentina Governors

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<td>Santa Fe</td>
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*Source: Provincial constitutions.*
But why is this an equilibrium outcome?

There is clearly a lot of collateral damage for elites.

But there are also well defined benefits

- Those with resources can manipulate the system in their favor
- Ill-defined property rights allow elites to expropriate others (OXFAM’s ”Land Grab” study in Colombia).
- The fragmented society stops unified demands for change and more radical transformation of the society emerging

Also a historical fear that a centralized state could act in ways which were very adverse to elite interests (at least in Colombia..)
State Weakness and “System #1”

- Children pick up and internalize social norms and informal institutions and are socialized into “the way the game is played”.
- After it is in “System #1” then one is almost unaware of playing the game.
- My impression is that this is a big part of the reproduction of the equilibrium in Latin America - it’s elite friendly without, in a sense, being conscious of it, which you could say was the genius of the system.
- It is also the case that once an equilibrium like this gets established many mechanisms make even those who may wish to change it perpetuate it...
Two New Members of the Argentine Supreme Court

Fernando Rosenkrantz and Horacio Daniel Rosatti
The Informal Equilibrium in Colombia

- My impression is that there are some well defined rules of the game
  - Looting the state and abusing society - those outside the game - is fair game
  - If you get caught you get to keep what you stole if you keep your mouth shut (Samuel Moreno)
  - If you step out of line you get punished (Andrés Felipe Arias) - “For my friends, everything; for my enemies, the law.” attributed to Brazil’s President Getulio Vargas.
  - Anyone is welcome to take part as long as they stick to the rules (even Pablo Escobar was welcome, but he wouldn’t stick to the rules).
  - Hence there is a lot of social mobility and new talent brings skills which traditional elites value (President Santos got himself re-elected due to increased “turnout” on the Caribbean coast)
  - Well intentioned people have to “work within the system” thus inadvertently reproducing it and are tolerated because they bring skills, make it look “serious” to outsiders, plus they help stop “unravelling”
Musa Besaile Fayad

The Most Powerful politician in Colombia
A Glimmer of Hope

- Ironically even subaltern groups can benefit from this system if they can figure out how it works.
- Wonderful example if Law 70 of 1993 in Colombia which flowed from the 1991 Constitution and has allowed Afro-Colombians, perhaps the most marginalized community in the country, to claim collective title to millions of hectares of land on the Pacific Coast.
- Other examples from the work of David Nugent in Perú (Modernity at the Edge of Empire)
Lands of the Consejos Comunitarios