

Authoritarian Political Selection:

Ruling Parties and the Rise of Business Elites

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Motivation

Political selection determines economic development

Rent capture deteriorates public policies.

But every ruling elite defends their rule, especially in a low income countries.

How does political & economic power relate to each other in low income countries?



Figure 1: A \$2 bn loan scandal sank Mozambique's economy (source: The Economist)

Existing findings

Co-optation strategies to neutralize threats to political survival are very common.

Payoff existing elites (Blaydes 2010)

Payoff mass public (Gandhi 2008)

Opposition (Gandhi and Lust-Okar 2009)

Factions with the ruling elite (Boix and Svolik 2013)

→ **Vertical integration of power**

But what about the private sector?

This paper: Political selection in the private sector

Theoretic: We introduce two mechanisms to improve the vertical political integration of business elites

Data: All formal business owners and major political positions in MOZ since 1975.

Identification: Natural experiment + Diff-in-Diff

Argument

Argument: Political selection in the private sector

If a new economic sectors emerge, relay ruling elites in authoritarian countries on two mechanisms to improve the vertical political integration of business elites.

- 1 Property rights in the private sector to allocated resources to a rising elite.
 - 2 Selection of this new elites: Personal social network/family of existing elite.
- Selection into firm ownership and recruitment from firm ownership into political office.

Mechanism: Commitment- and information problems

The ruling elite in a non-democratic country needs to fix a dual commitment problem and a dual information problem.

Commitment problem

Cannot credibly commit to refrain from expropriating investment.

New economic elite can be a threat to the rule.

Information problem

Business specific knowledge is needed to get access to rents

Private sector needs to be monitored

Distinction from prior research

A sudden inflow of new technologies or resources in the private sector can potentially disrupt the power of existing political elites.

Prior work:

Political elites will try to block disruption (Acemoglu and Robinson 2006)

This paper:

Existing elite constructs new business elite.

The new business elite enters politics.

Context and Data

[illegible]

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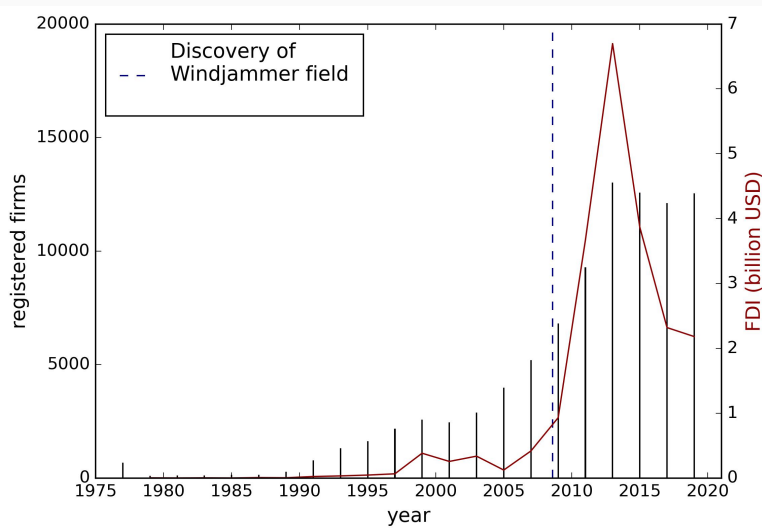
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Private sector and FDI inflow since independence



Fetching/Parsing semi unstructured entries of firm registration

INBR3 - Base de dados dos anúncios

INBR3 - Base de dados dos anúncios

INBR3

Parâmetros de Pesquisa: [Parâmetros de Pesquisa](#) [Ajuda](#) [Notícias e Notícias](#) [Contato](#)

Expressão Utilizada: 13245

Localizado(s): 1 Página(s)

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Id do Registro: 15556

Anúncio de: [Constituição de sociedade por quotas](#)

Publicado em: 05.01.15, 12:44pm de 20 de Janeiro de 1999 - pág. 68

Nome da Entidade: **SADON, Lda**

Capital: 60.000.000,00 MT - Quarenta e cinco milhões de metais

Estado processual e qualificação: [Banco Comercial](#)

Representante Legal: [Banco Comercial](#)

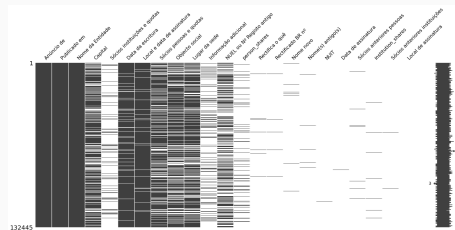
Objeto social: Comércio geral, por grosso e a retalho, seus complementos, importação e exportação e intermediação.

Lugar de sede: **Belo - São Paulo**

Data de inscrição: 28 de Outubro de 1998

Lugar e data de extinção: **Belo, 22 de Novembro de 1998**

At: 20 de Junho 450 - 17 andar Floor 3 | Caixa Postal 1000 - Nova Lima
Tel: +351 21 3205001 | Fax: +351 21 3205010 | Email: +351 21 3205011



Individual political mandates

Companies, their industries and ownership structure.

Upstream, midstream and downstream related firms in the oil and gas industry.

The social network for business owners and politicians.

Political mandates per type

	< 2009		> 2009		1975 – 2022	
	M	B	M	B	M	B
Governor	43	31	33	20	69	46
MP	136	53	256	82	361	122
Minister	111	74	75	55	163	110
Vice Minister	56	37	51	26	99	59
Central Committee	494	177	227	106	647	231
Polit Bureau	47	34	30	27	59	44

Note: Number of individuals with at least one mandate (M) and additionally at least one business ownership(B) before/after the discovery and the whole observation period.

Mission statement of a gas supplier firm (example)

Platinum Global Sourcing

- a) Provision of consultancy and engineering support services in the oil sector, specifically, consultancy in corrosion, drilling, exploration, geology, geophysics and project management;
- b) Provision of hydraulic, mechanical and piping engineering support services;
- c) Provision of environmental and safety assessment services in oil fields, including environmental monitoring, pollution control and prevention services, etc.;
- d) Provision of maintenance services for drilling and marine equipment;
- e) Manufacture and construction of mechanical, structural, piping, including underwater workshops for oil fields;
- f) Import, export and sale of instrumentation equipment, drilling machines, marine equipment, paints and coatings, production equipment, valves, etc.; [...]

Individual social networks: Example

- Aires Bonifácio Baptista **Ali**
- Former Prime Minister
- 14 direct business partners until 2009
- 9 individuals with same family name

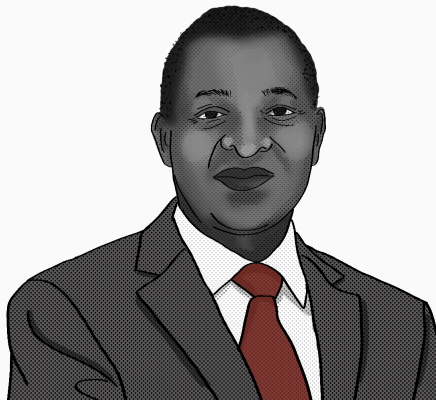


Figure 2: Aires Ali (source: PANDORA PAPERS)

Identification & Results

1 Ownership of Gas Companies and Political Selection

→ Effect of gas related firm on personal political career: Diff-in-Diff with staggered treatment

2 How a Shock to the Private Sector Changed Business Holdings of Politicians?

→ % of business owners in the gas industry with politically important family names: Natural Experiment synthetic control estimates.

1. Effect of owning a gas-related firm on P(political mandate)

Variation of a two-way fixed effects model:

$$Pol_{it} = \delta Firm_{it} + \Gamma_i + \omega_t + \epsilon_{it}.$$

Firm Founding a gas-related firm in the private sector

Pol is a binary indicator of whether businessperson *i* gains a political mandate

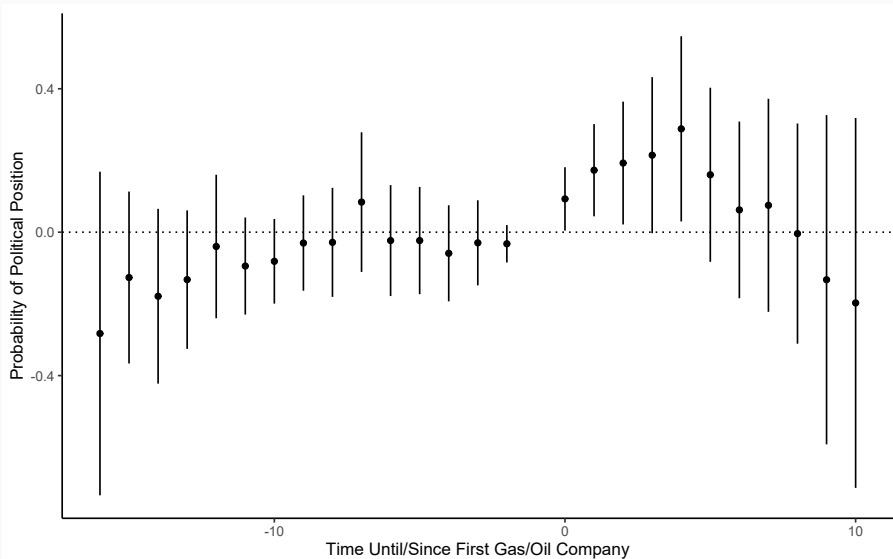
Γ and ω Individual and year FE.

Sample selection: we only include people in our sample who at some point gain ownership of a firm

Sun and Abraham (2021) estimator to ensure that already-treated units are never included in the comparison group

► Appendix: Triple-Diff-in-Diff

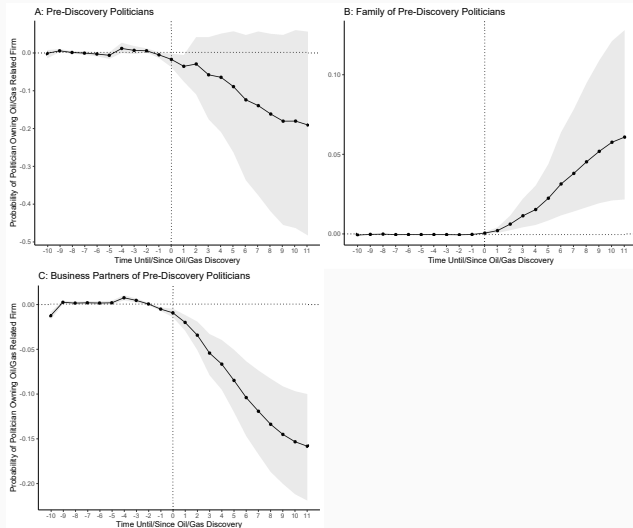
1. Effect of owning a gas-related firm on P(political mandate)



2: How a Shock to the Private Sector Changed Business Holdings of Politicians?

- Treatment: Gas discovery in 2009.
- Outcome: $P(\text{owning a gas firm})$
- Unit of analysis: individuals with political mandates or > 1 business affiliation.
- General business holdings trend upward very strongly \rightarrow potential pre-trend bias
- Synthetic control estimator, Xu (2017)

2: How a Shock to the Private Sector Changed Business Holdings of Politicians?



Wrap-up

Scope conditions & External validity

- (electoral) Autocracy with stable and durable one-party dominance
- Relatively weak institutions
- Natural resources

Conclusion

- We argue that elites in autocratic regimes shape the composition of new business elites if new economic sectors emerge.
- Owners of gas related firms are more likely to become powerful politicians.
- We show for the case of Mozambique and a giant gas discovery in 2009, that family members of pre-discovery politicians enter the gas sector.
- The Pre-Discovery politicians and their existing business partners do not benefit in the same sector

Thanks!

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 **@schllingerkurs**

Our data compared to other firm databases in flag-mozambique

	Σ companies
Bulletin	127749
ORBIS (all entities)	10783
S&P Capital IQ	861
WB enterprise survey 2007	599
WB enterprise survey 2018	554
UNU wider 2012	831
UNU wider 2017	525

Firm Ownership and Gaining Political Mandates

	(1)	(2)	(3)	(4)	(5)	(6)
Own Company?	0.015 (0.010)					0.018 + (0.010)
# Companies Owned		0.038 ** (0.015)				
Own Oil/Gas Company?			0.166 + (0.085)	0.150 + (0.091)	0.036 (0.048)	
Oil/Gas X Family					0.526 + (0.315)	
Own Company X Family						-0.014 (0.022)
Num.Obs.	2150517	2150517	2150517	2150517	2150517	2150517
Num. Individuals	126501	126501	126501	126501	126501	126501
Unconditional Probability of DV	0.083	0.083	0.083	0.083	0.083	0.083
Individual FE?	Yes	Yes	Yes	Yes	Yes	Yes
Year FE?	Yes	Yes	Yes	Yes	Yes	Yes

Dependent variable is an indicator of a political position multiplied by 100. Standard errors clustered by individual. +, *, and ** indicate statistical significance at the 0.1, 0.05 and 0.01 levels, respectively