

The Economics of the Pinochet Dictatorship

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Lecture 2: Economics and politics

- Local governments
- Privatization and politics
- Repression of politicians

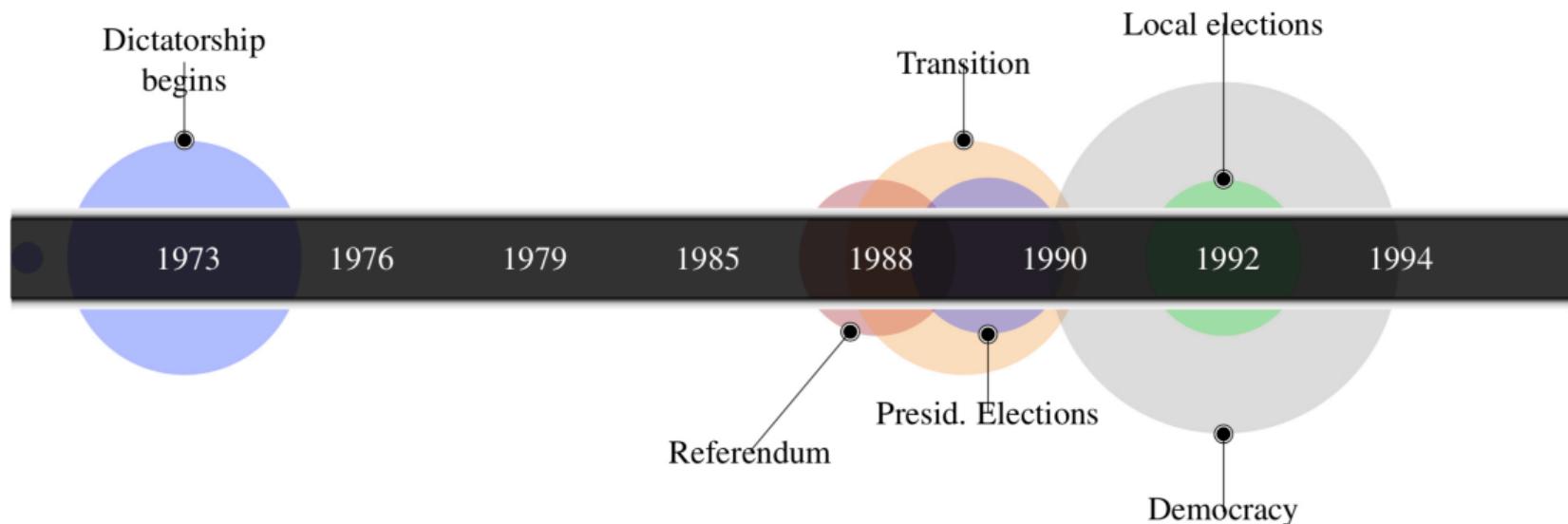
The persistence of dictatorship mayors

González, Muñoz, Prem (2023)

- ▶ Mayors inherited from a dictatorship are causally associated with worst outcomes: elite persistence, governance, competition
- ▶ How do dictatorship mayors remain in power after democratization? Appointed versus elected under dictatorship
- ▶ Let's examine the case of mayors appointed by the Pinochet dictatorship



The transition to democracy



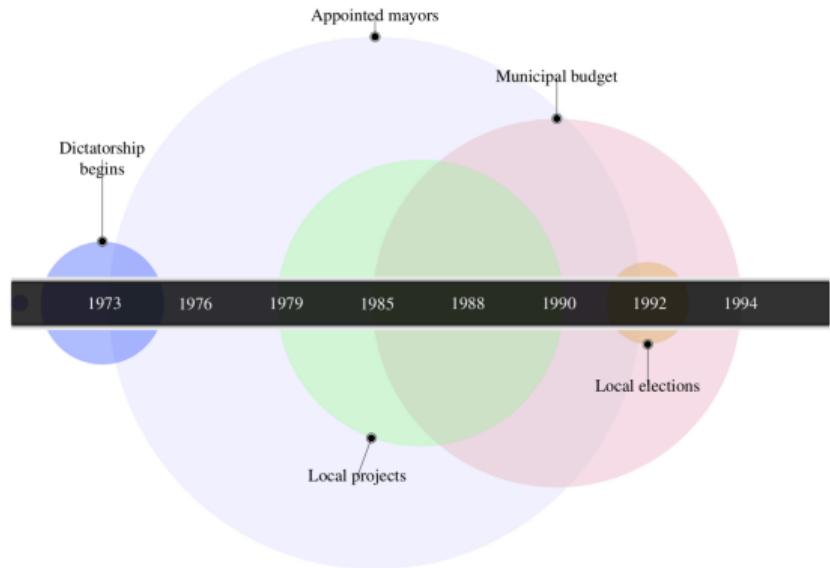
Pinochet-appointed mayors

- ▶ The 1980 Constitution established that a mayor appointed by the President would be in charge of a county's administration
- ▶ Agreement to change local leaders in 1991: Local elections in June 1992 to elect 334 mayors and a council
- ▶ Many appointed-mayors ran and won in the 1992 elections. Why did appointed-mayors remained in power after the transition?



Data

1. Pinochet-appointed mayors
 - official decrees and FOIA
 - names and tenures 1973-1992
2. Municipal budgets
 - General Accounting Office
 - annual reports 1985-1994
3. Local projects
 - annual reports by MINVU
 - 8,000 projects in 1979-1996



Appointment of mayors

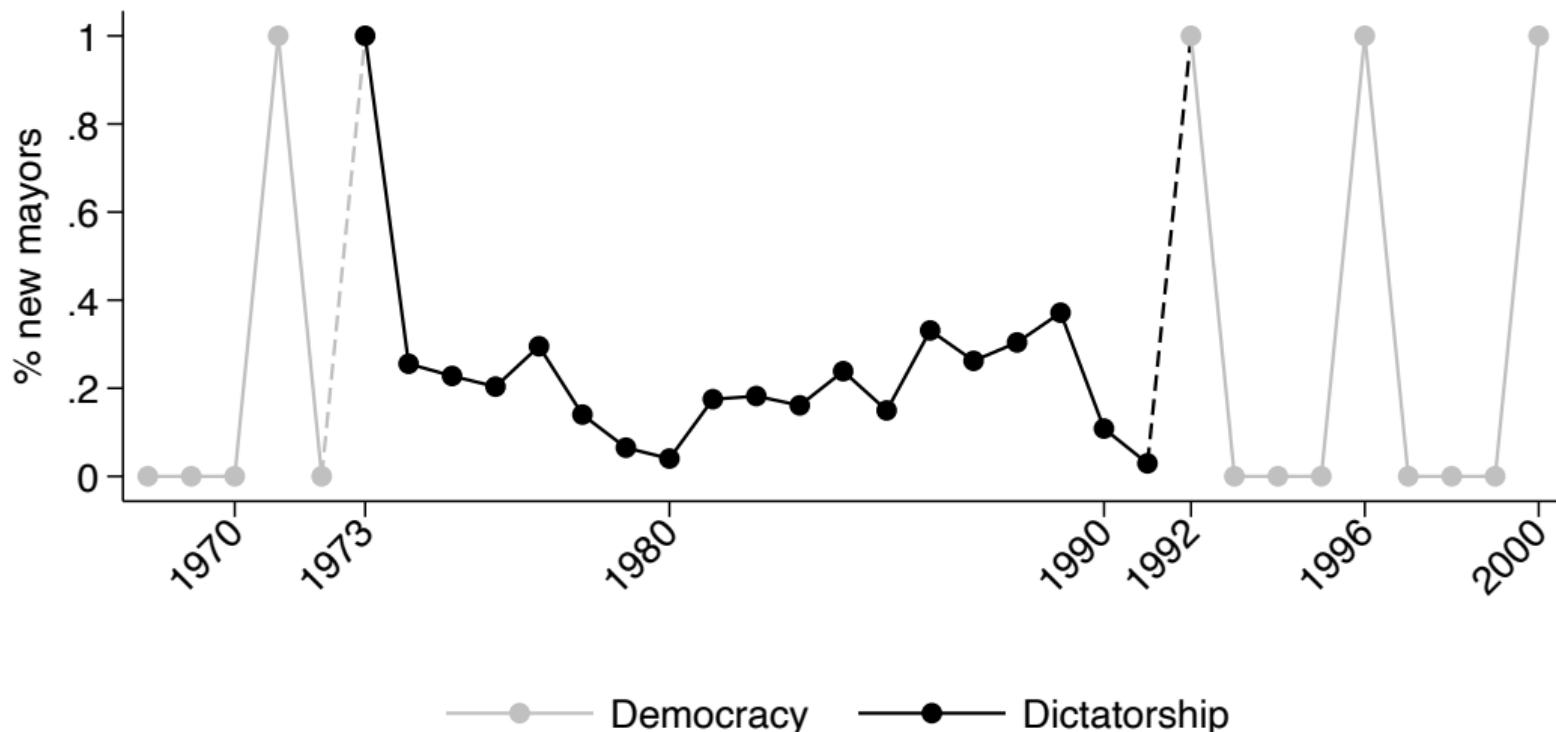
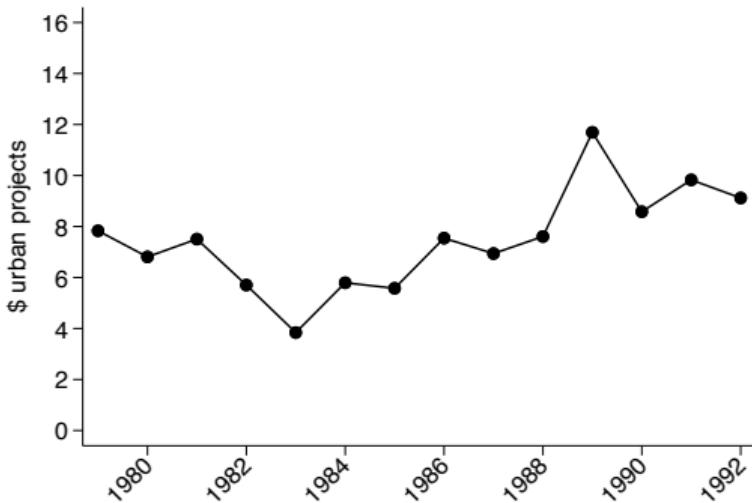
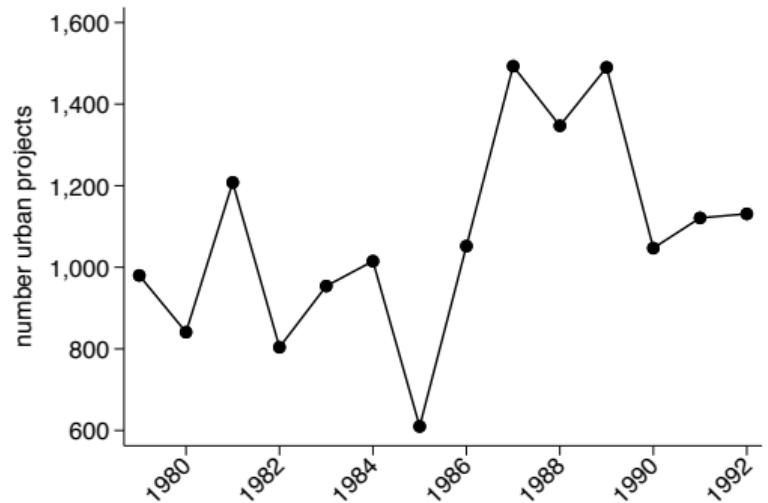


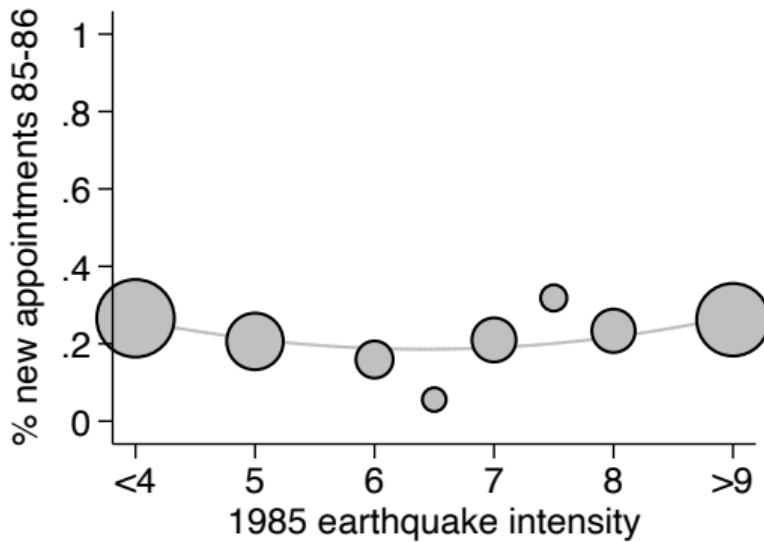
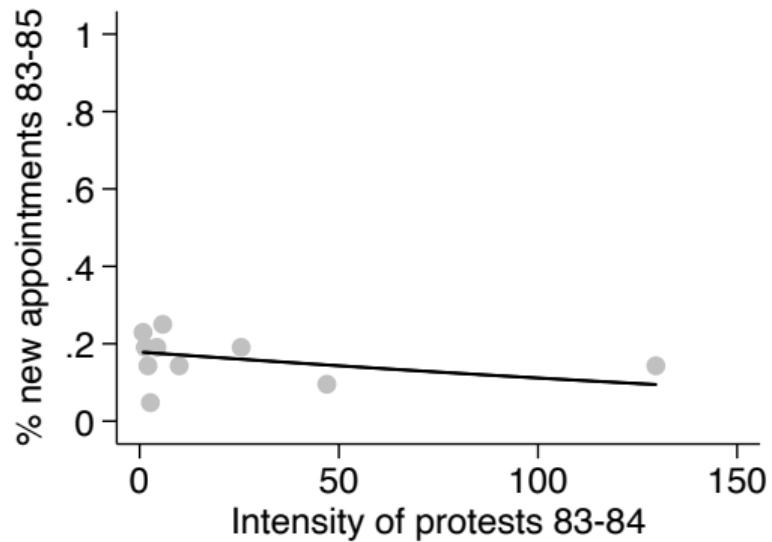
Table 1
Descriptive statistics.

	Mean	St. Dev.	Min	Max
Panel A: Mayors appointed by Pinochet (N = 1104)	(1)	(2)	(3)	(4)
Years of tenure (1973–1987)	4.14	3.60	1	15
Municipalities per mayor (1973–1987)	1.04	0.21	1	3
Panel B: Municipalities (N = 333)				
Number of mayors (1973–1987)	3.22	1.61	1	8
Local spending (\$) in projects per capita (1979–1987)	50.16	358.22	0	6305.66
Local spending (N) in projects per capita (1979–1987)	16.85	23.55	0	327.87
Municipal revenues per capita (1985–1987)	15.05	35.58	0.24	605.12
Municipal spending per capita (1985–1987)	14.94	34.98	0.35	594.41
Budget deficit (1985–1987)	1.09	0.89	0.38	10.72

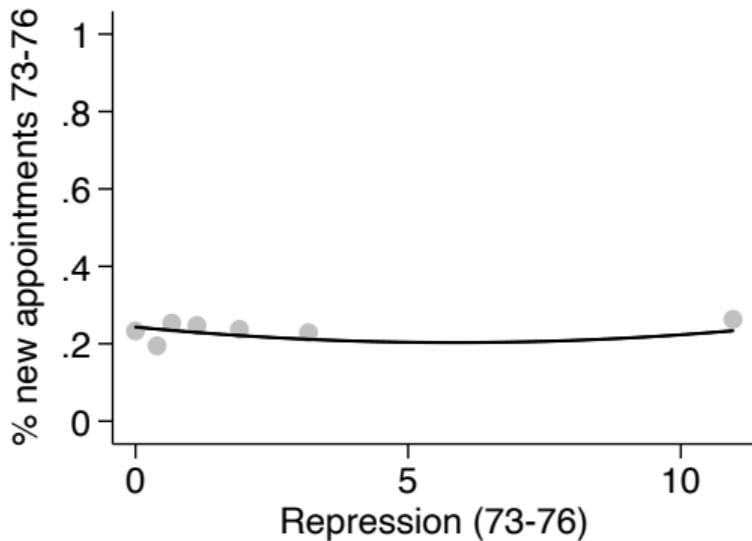
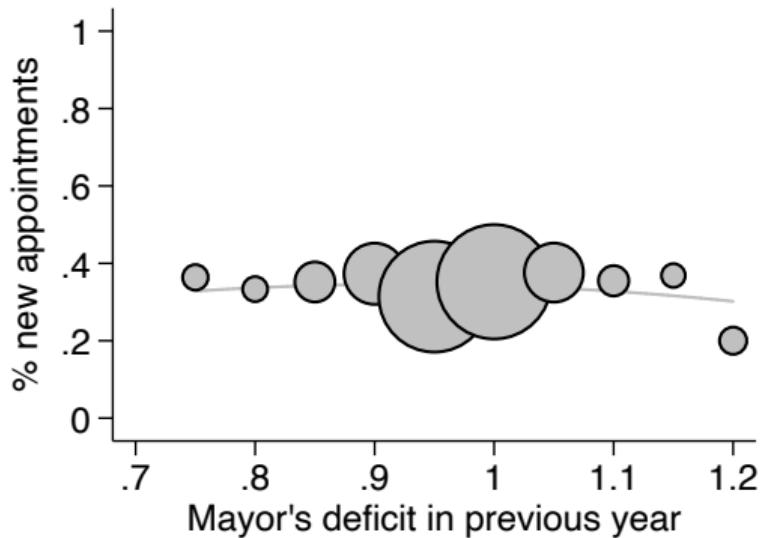
Local projects over time



What explains the appointment of mayors?

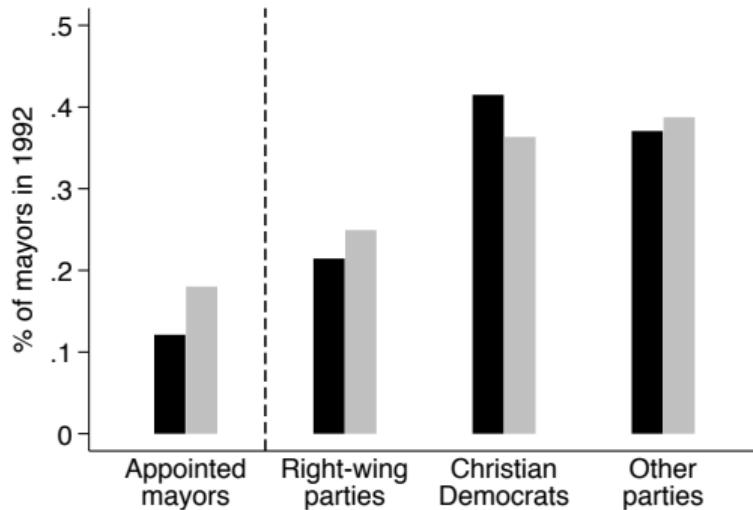


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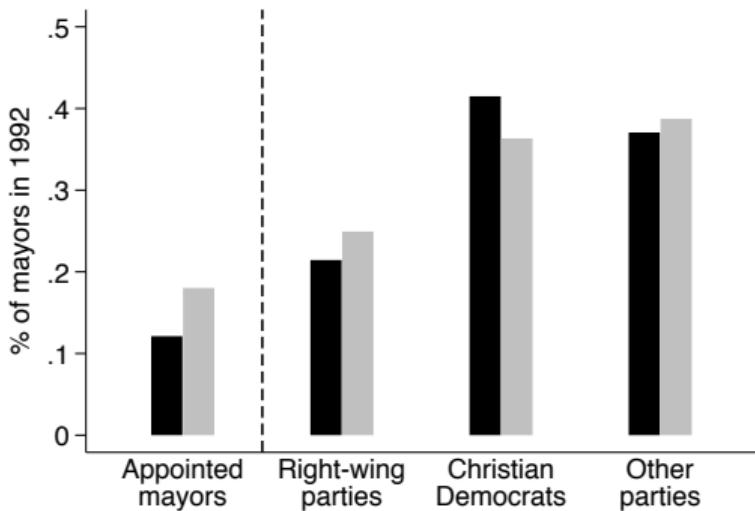
First local elections in democracy

- ▶ Voters elected 1 mayor and 6-10 councilors in 334 counties
- ▶ Electoral rule:
 - candidate is mayor if $> 35\%$ of votes and part of most voted list
 - following 6-10 candidates in votes are elected councilors
 - otherwise the elected council chose the mayor among them
- ▶ The rule favored the center and punished the rest of candidates



Electoral results in the 1992 local elections

- ▶ Dictatorship mayors obtained a 9 percentage points vote premium
- ▶ Premium twice as large (12 vs 6pp) among sitting incumbents
- ▶ Increase in spending before the transition can partially explain the vote premium of all dictatorship mayors



Dictatorship mayors in democracy

- ▶ What is effect of dictatorship mayors democratically elected in 1992?
 - economic performance
 - political legacies
- ▶ Because of the rule the council elected the mayor in 284 counties
- ▶ Colored cases: vote difference between candidates 6 and 7 is <5pp

1	L	L	L	R	L	L	...	R	R	R	R	R	R
2	L	L	R	R	R	R		L	L	L	L	R	R
3	L	R	L	L	L	L		R	R	R	R	L	R
4	L	L	R	R	R	R		L	L	L	L	R	R
5	L	L	L	L	R	R		L	R	R	R	R	R
6	L	L	L	L	L	L		R	L	R	R	R	R
7	L	L	R	L	R	R		L	R	L	R	R	R
:													
N													

Dictatorship mayors in democracy

- ▶ Dictatorship mayors lead to:
 - + votes for right-wing candidates in local and presidential elections
 - + right-wing politicians elected for the local council
- ▶ Similar performance than other mayors: deficit, projects, wages, misreporting
- ▶ Dictatorship mayors are one mechanism through which authoritarian elites persist across political regimes



Lecture 2: Economics and politics

- The persistence of dictatorship mayors
- The privatization origins of political corporations
- The repression of politicians

Political corporations and privatizations

González, Urzúa, Prem (2020)

- ▶ Corporations play a role in shaping politics.
Individuals acquire firms through
privatization reforms
- ▶ Privatizations are plagued by controversies
regarding sale prices and buyer identity
- ▶ Let's explore the relationship between
privatization reforms under dictatorships
and the origins of political corporations



Privatizations under Pinochet

- ▶ One of their most prominent policies and believed to have “improved domestic and world welfare” (World Bank 1994)
- ▶ However, some privatizations have generated controversy because of sale prices and buyer identity
- ▶ Example: leading chemical company sold underpriced to Pinochet’s son-in-law



Data construction

1. Firm reports

- balance sheets, boards, etc
- 50 firms privatized by Pinochet
- daily stock prices

2. Controversial privatizations

- underpricing data
- board members and buyers

3. Politics in democracy

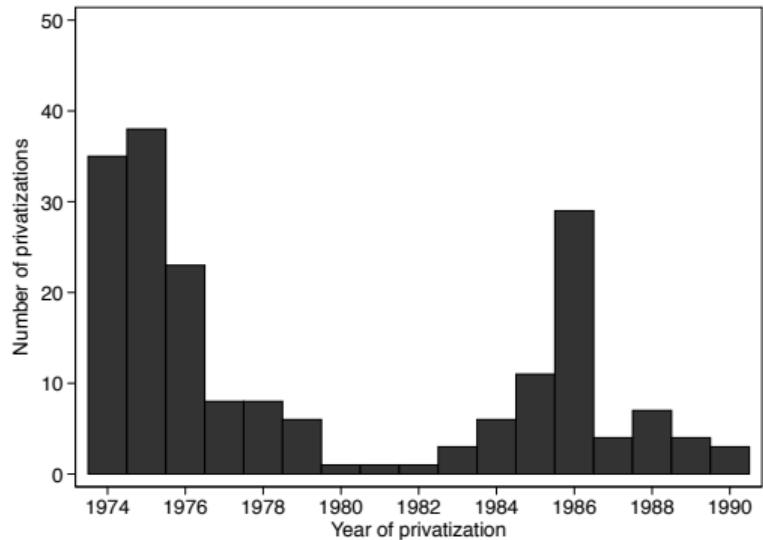
- politicians of the *old* and *new* regime
- campaign finance (tax authority)
- Panama Papers

Estados de Resultados Consolidados

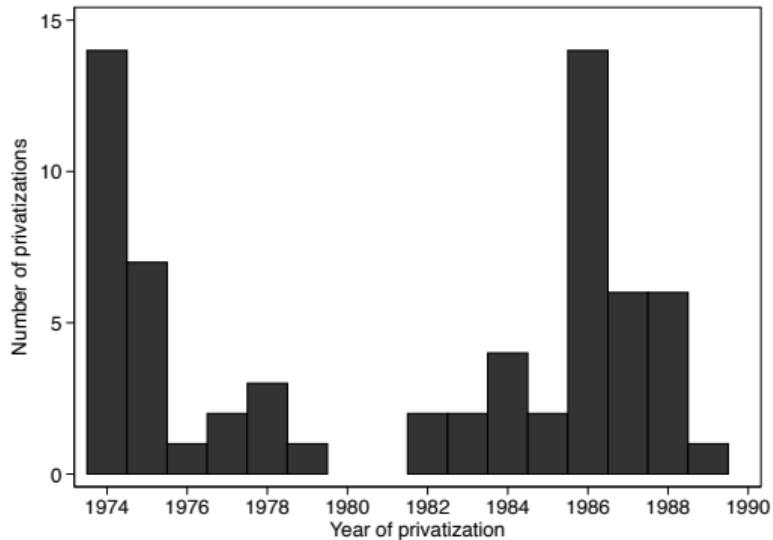
Por los años terminados al 31 de Diciembre de 1987 y 1986
(En miles de dólares estadounidenses – M.U.S\$.)

	1987 M.U.S\$	1986 M.U.S\$
Resultados Operacionales		
Ingresos de explotación	173.692	154.265
Costo de explotación	(131.594)	(115.017)
Margen de explotación	42.098	39.248
Gastos de administración y ventas	(9.805)	(9.434)
RESULTADO OPERACIONAL	<u>32.293</u>	<u>29.814</u>
 Resultados No Operacionales		
Ingresos financieros	3.916	3.698
Utilidad Inversión empresas relacionadas	2	2
Otros ingresos fuera de explotación	9.449	5.763
Amortización mayor valor de inversiones	11	12
Gastos financieros	(2.609)	(2.114)
Otros egresos fuera de explotación	(5.407)	(3.492)
RESULTADO NO OPERACIONAL	<u>5.362</u>	<u>3.869</u>
 Utilidad antes de impuesto a la renta y partidas extraordinarias	37.655	33.683
Gasto tributario	(2.978)	(3.600)
Utilidad antes de partidas extraordinarias	<u>34.677</u>	<u>30.083</u>
Partidas extraordinarias:		
Pago del seguro en exceso al valor libro de bienes dañados en incendio	774	—
Reconocimiento del beneficio tributario asociado con la realización de una pérdida tributaria acumulada	144	—
 UTILIDAD DEL EJERCICIO	<u>35.595</u>	<u>30.083</u>

Timing of privatizations

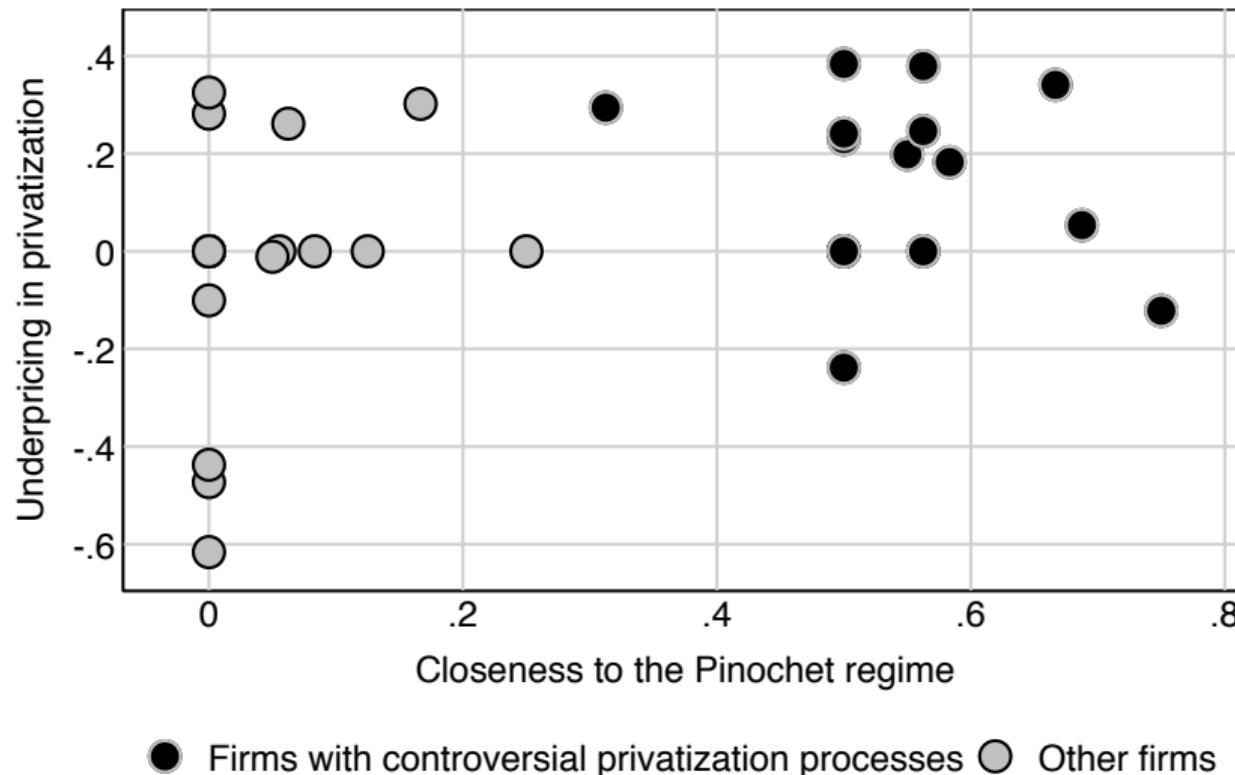


(i) All firms privatized by Pinochet



(j) Our data of privatized firms

Detecting controversial privatizations



Characterization of privatization processes

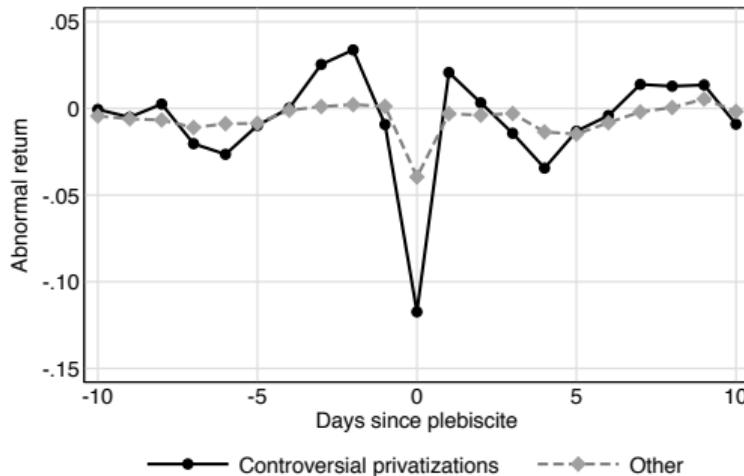
	Subsample of firms			
	All firms	With controversial processes	Without controversial processes	Difference
	(1)	(2)	(3)	(4)
Share of board with links to regime	0.08 (0.15)	0.12 (0.18)	0.06 (0.12)	-0.06 [0.16]
Buyer has links to the regime	0.42 (0.50)	0.96 (0.21)	0.00 (0.00)	-0.96*** [0.00]
Closeness to the regime	0.25 (0.27)	0.54 (0.09)	0.03 (0.06)	-0.51*** [0.00]
Underpricing in privatization	0.08 (0.45)	0.23 (0.39)	-0.03 (0.48)	-0.26** [0.04]
Number of firms	50	22	28	

Differences before privatization

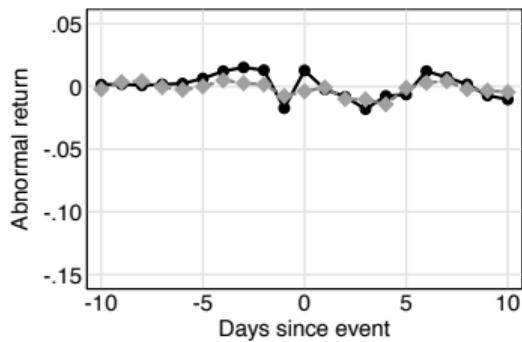
	Firms with controversial privatizations (1)	Firms with uncontroversial privatizations (2)	Difference (2) - (1) <i>p</i> -value [perm. test] (3)	Firms without privatization but with reports (4)	Firms with privatization but without reports (5)
Logarithm of total assets	20.8 (1.1)	23.9 (1.4)	0.10 [0.10]	16.2 (1.3)	–
Logarithm of sales	19.0 (1.4)	23.2 (1.4)	0.04 [0.04]	15.1 (1.8)	–
Return over equity	0.15 (0.05)	0.19 (0.03)	0.41 [0.40]	0.38 (0.62)	–
Leverage	0.42 (0.05)	0.42 (0.05)	0.99 [0.99]	0.36 (0.22)	–
Years since established	40 (5)	48 (7)	0.36 [0.99]	31 (21)	–
Year of privatization	1983 (1)	1981 (1)	0.09 [0.10]	–	1979 (5)
Number of firms	22	28		25	188

The stock market

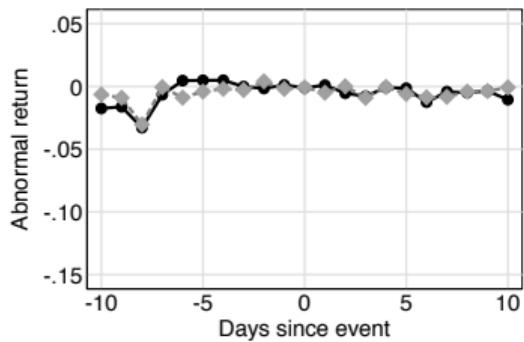
- ▶ Fisman (2001) approach to check if firms with controversial privatizations benefited from the regime
- ▶ We study abnormal stock returns around the 1988 plebiscite
- ▶ Financial investors perceived that controversial privatizations lost value after learning the regime would end



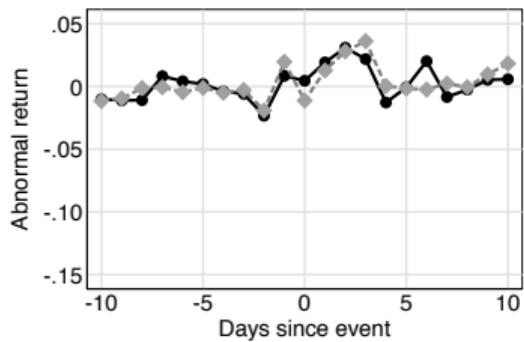
Other political events



(a) Pinochet gets nominated



(b) Constitutional reform



(c) 1989 Presidential Election

The credit market

- ▶ The credit market is useful to study because it has the potential to reveal if firms with controversial privatizations were receiving a differential treatment from the regime (Khwaja and Mian, 2005)
- ▶ Firms with controversial privatizations acquired more loans from the state bank before democracy (1988-90)
- ▶ As a consequence, these firms were also significantly larger in the early 1990s



Political corporations in democracy

- ▶ Firms with controversial privatizations substituted political connections from the old to the new regime after democratization
- ▶ Political connections increase resource misallocation and produce rents for connected individuals
- ▶ These firms are also more likely to engage in campaign finance and to appear in the Panama Papers



Political buyers or political firms?

- ▶ Are results explained by characteristics of the firms privatized or by characteristics of the buyers of the firm?
- ▶ Maybe firms that were more politically engaged after dictatorship were also relatively more politically engaged before
- ▶ Results explained by connections of buyers.
Pre-privatization connection of firms unrelated to the patterns documented



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The repression of politicians

Jane Esberg (2021)

- ▶ Dictators use repression to eliminate challenges to the state, making opposition leaders among their most important targets
- ▶ Puzzlingly, however, even brutal dictators do not always kill or imprison their most powerful opponents
- ▶ Autocrats are constrained from using violence against prominent opponents because their visibility makes responsive dissent more likely



Context

- ▶ Pinochet justified repression as necessary to avoid subversion. Also faced challenges from pro-democracy activism
- ▶ Focus on candidates for congress in the March 1973 election
- ▶ Election raises prominence by increasing coverage and name recognition

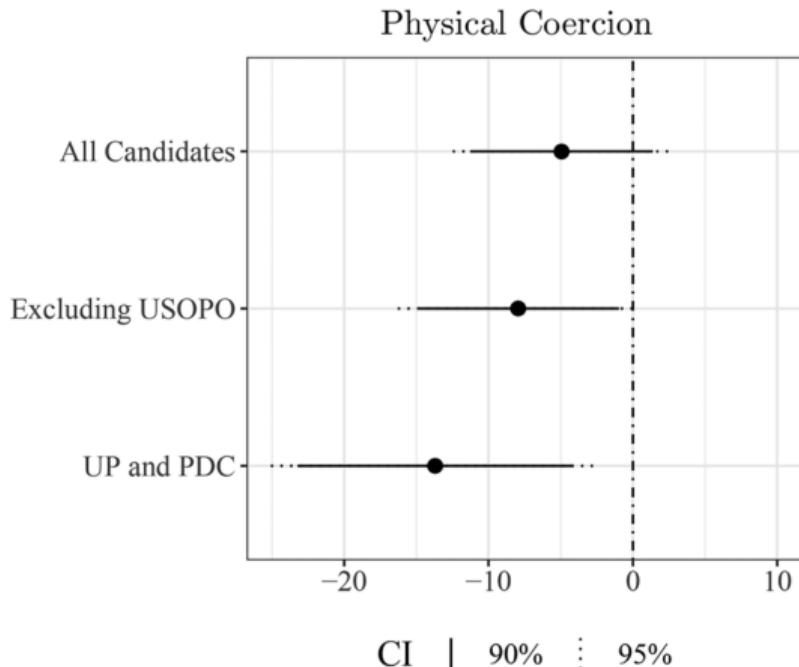
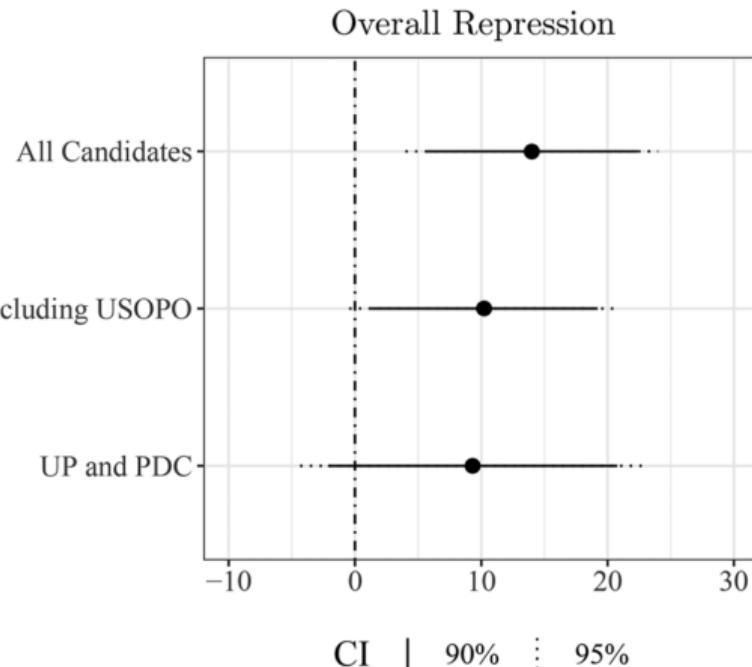


Data and hypotheses

- ▶ Interest in how targeting changes with capacity and prominence
 - more popular → more repression
 - candidate elected → less physical coercion
 - cabdicate elected → more press coverage
- ▶ Individual-level data: all candidates for deputies in the 1973 election ($N = 322$)
- ▶ Physical coercion (45): killed, disappeared, or illegally detained. Overall repression (94): physical coercion and exile

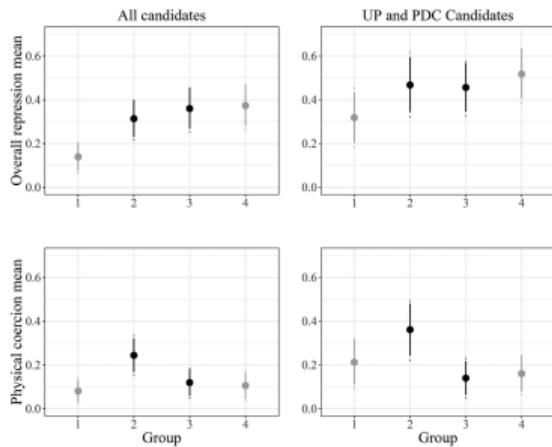


Elected politicians and repression

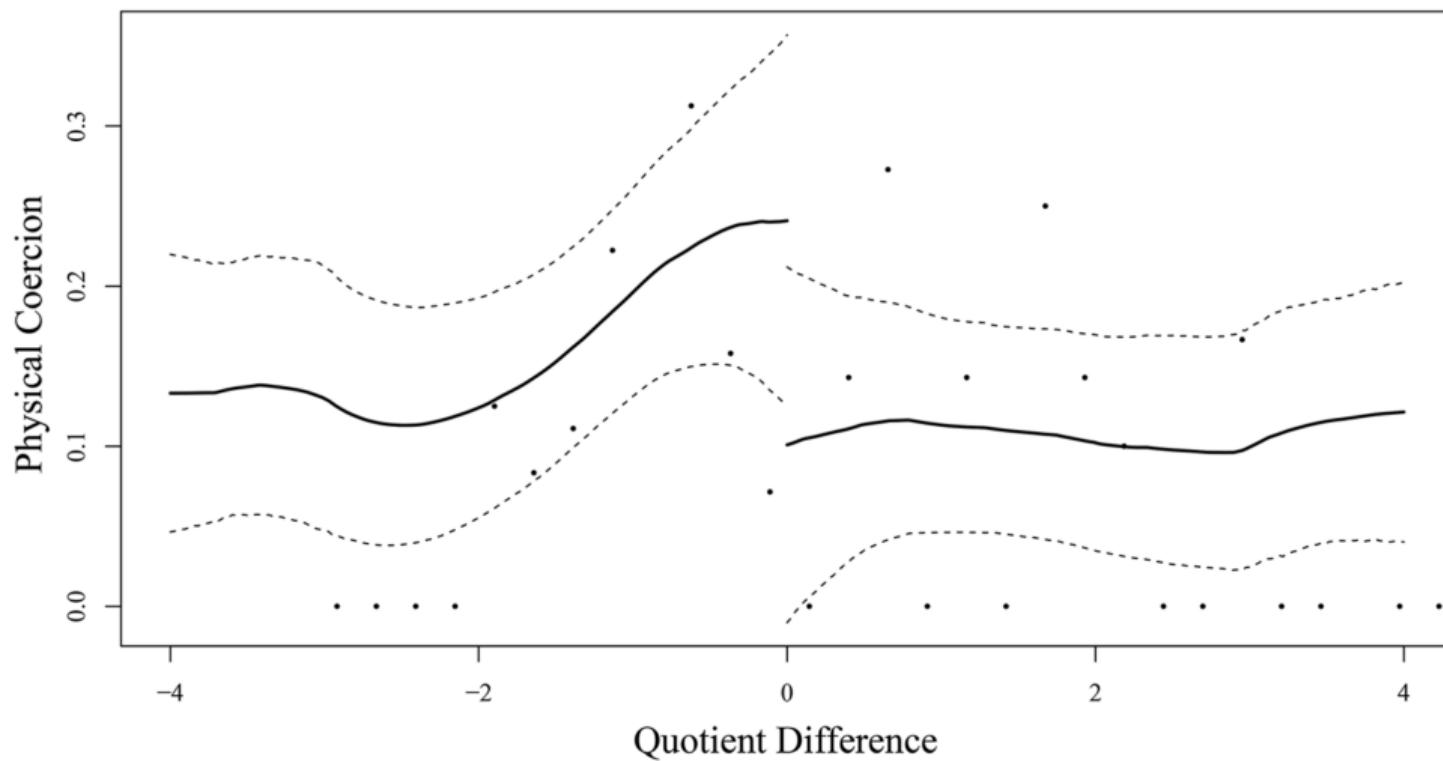


Results

- ▶ Politicians elected in the 1973 Congress Election were less likely to experience physical coercion. Exile as substitute
 - group 1: low-performing unelected
 - group 2: high-performing unelected
 - group 3: low-performing elected
 - group 4: high-performing elected
- ▶ Mechanism: Holding office increases dictatorship press coverage unrelated to repression



Physical coercion



Press coverage

