



# The impact of individual wealth on posterior political power<sup>☆</sup>



Martín A. Rossi\*

Universidad de San Andrés, Argentina

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## ABSTRACT

I exploit a unique historical event to explore the causal relationship between individual wealth and posterior political power. Shortly after the founding of Buenos Aires, plots of land in the outskirts of the city were randomly assigned to all heads of household that participated in the expedition. Using this random allocation of land as a source of exogenous variation in individuals' wealth, I find that wealth causes political power. I also explore possible mechanisms and find support for the hypothesis that wealth signals (or improves) ability.

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## 1. Introduction

In this paper I use data from the founding of the city of Buenos Aires to study whether individual wealth leads to posterior political power in representative societies.

There is abundant casual evidence providing support to the conjecture that wealth causes political power. For example, Sebastián Piñera is the president of Chile and he is also among the two or three richest persons in the country; Silvio Berlusconi is the richest person in Italy and, until recently, he was the prime minister; and the super-rich Rockefellers are in the top three of America's political dynasties with a vice president, three governors, two senators, and two representatives (Hess, 1997). The observed correlation between wealth and political power, however, does not help to address whether there is a causal relationship between wealth and posterior political success, even in those cases where political power comes chronologically after wealth: other characteristics may explain both why some individuals are wealthy and why they have posterior political success.

To identify the causal link between wealth and posterior political success I exploit an unusual historical event that provides a source of exogenous variation for individuals' wealth. Shortly after the foundation of Buenos Aires in 1580 by Juan De Garay, all the heads of household that participated in the expedition for the foundation received land inside the

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\* Correspondence to: Universidad de San Andrés, Vito Dumas 284, B1644BID Victoria, Buenos Aires, Argentina. Tel.: +54 11 4725 6948.  
E-mail address: [mrossi@udesa.edu.ar](mailto:mrossi@udesa.edu.ar)

city for residential purposes and land outside the city (jointly with local aborigines to work it) for agriculture purposes. The land outside the city limits was randomly allocated. As a result of the allocation of land, and for reasons totally unrelated to individual's characteristics, some heads of household received agriculture land close to the city whereas others received it far from the city (the quality of the soil is similar in all the area under analysis). I use the randomly allocated distance of the farms to the city of Buenos Aires as an exogenous shock to individuals' wealth in order to identify the causal relationship between wealth and the probability of having posterior political power.

I report evidence that the distance of the farms to the city is a proxy variable that provides a source of exogenous variation for wealth. First, there is suggestive evidence that the distance of the farms to the city of Buenos Aires was randomly assigned. Even though there is no historical evidence on the exact procedure for the allocation of land, there are two reasons that suggest that the distance of the farm to the city was indeed randomly assigned: (i) there was a recent law at that time stating that the land had to be assigned randomly in the colonial cities founded after 1573; (ii) the distance of the farms to the city is orthogonal to the set of individual characteristics available.

Second, I present three pieces of evidence that the distance of the farm to the city is negatively correlated with wealth: (i) a voluntary contribution 27 years after the foundation is negatively correlated with the distance of the farms to the city; (ii) the price of the land in the surroundings of Buenos Aires at colonial times was negatively correlated with the distance to the city; (iii) even today there is a negative relationship between the price of the land and the distance to the city in the geographic area under analysis.<sup>1</sup>

Third, there is historical evidence that the distance of the farms to the city distance does not have an effect on posterior political power either directly, or through channels other than wealth. In a nutshell, the neighbors resided in the city at walking distance of the city government or *cabildo*, they did not work the farms by themselves (most of the farms were worked by the local aborigines allocated by Garay or just leased to peasants that paid a rent for the land), and therefore the farms can be considered as an exogenous shock to neighbors' wealth.

The combination of random allocation of the distance of the farms to the city, negative relationship between distance and price of the land, and distance not having an effect on posterior political power either directly or through channels other than wealth provides with a natural experiment suitable to explore the causal impact of wealth on the probability of holding posterior political power. I find that those individuals receiving more valuable land (closer to the city of Buenos Aires) have a higher probability of achieving posterior political success, thus providing support for the hypothesis that wealth causes political power.

To the best of my knowledge, this is the first paper to identify empirically the existence of a causal relationship between wealth and representative political power. The closest approach is the work by [Acemoglu et al. \(2007\)](#), who use data from the 19th century from Colombia and report a set of historical correlations that suggest that political power in Colombian municipalities is important in obtaining economic rents, but there seems to be a smaller role of wealth in enabling individuals to become politicians. The relationship between political power and posterior wealth is also explored in a paper by [Querubín and Snyder \(2011\)](#) who, using data from the 19th century in the US, report that the returns to a seat in the House were low during "normal" times but significantly higher during the spike of federal government spending due to the civil war.

There is also a related literature on political dynasties that documents evidence on self-perpetuation of political power in democracies ([Dal Bó et al., 2009](#); [Querubín, 2011](#); [Rossi, 2011](#)). This literature explains the observed persistence of political elites but it cannot explain why certain individuals got into power in the first place.

The rest of the paper is as follows. Section 2 describes the foundation of Buenos Aires and the era of colonial political power. Section 3 describes the allocation of land and presents the data. Section 4 develops the econometric model. Section 5 reports the results and discusses possible mechanisms. Section 6 concludes.

## 2. Foundation of Buenos Aires and the era of colonial political power

Buenos Aires (now the capital of Argentina) was founded twice. Don Pedro de Mendoza established the first settlement in 1536, at the present day location of the city. However, continuous attacks perpetrated by local aborigines forced the settlers away, and in 1541 the site was completely abandoned. In April 1578, Juan de Garay received a mandate from the Spanish crown for a second expedition with the objective of "opening the door to the land." As part of the preparation, in January 1580 Garay published in Asunción (now the capital of Paraguay) a call for heads of household willing to participate in the new expedition. Most of the answers to this call were from citizens born in Asunción, descendents of Spaniards and indigenous women, without any previous political experience. These citizens were tempted by the promise of getting land in the new city, including local aborigines to work it ([Orquera, 2006](#)). Out of the 65 heads of household that ended up participating in the expedition (64 men and one woman), 13 were born in Spain and the rest were born in the Americas ([Gammalson, 1980](#)).

<sup>1</sup> There is some historical evidence suggesting that original settlers needed to wait for some years before being able to sell the land. Therefore, early differences in wealth came from productivity differences (fewer transaction costs and a lower probability of being attacked by the local aborigines for land closer to the city). These productivity differences eventually had an effect on the price of land. Thus, even though the paper is framed as a story about the relationship between wealth and political power, it may also be thought as a story about the relationship between income and political power. Still, this is income derived from landholdings (wealth).

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