

## 1.Introduction

The distribution of political power across groups in society plays a central role in political economy. Perhaps for this reason, the concentration of power in small groups has been the subject of study for a long time. Michels (1911) considered the malfunctioning of a democracy caused by the domination over society by a small group of elites. Pareto (1968) emphasized the disproportionate power of elite groups, testifying that they need to use force to defend their privileges in order to survive. More recently, Dal Bo et al (2009) and Acemoglu and Robinson (2008) considered political dynasties an anti-democratic aspect of a political system. Dynastic politicians may have considerable advantages in the political competition that undermine the democratic principle of political equality, since their powerful families confer name recognition and useful contacts unto them. Therefore, dynasties have been associated with the capture of power by a small group (Querubin 2010, 2).

On the other hand, politicians with relatives that were in office previously have other advantages that may be useful for his or her mandate, and ultimately, for society. A recent case which exemplifies this fact is that of the British politician Violet Bonaham's father, H.H. Aquith (a former British prime-minister), who had talked to her about affairs of state since her childhood<sup>1</sup>. This previous experience could play an important role in the quality of the administration of a politician, since attitudes are intergenerationally transmitted (Dohmen et al, 2008). Furthermore, a group with greater chance of being in power in the next period has greater incentive to invest (Besley and Reynal-Queirolo, 2011). Since dynastic politicians have incumbency (Querubin 2010,2) and self-perpetuation advantages (Dal Bo et al, 2009), they are one of these groups more likely to invest, and therefore enhance public goods.

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<sup>1</sup> See The Economist article "Women in Political Dynasties: The distaff of office", July the 7<sup>th</sup> 2011.

Considering these multiple dimensions in which political dynasties could affect political and economic outcomes, it is not clear which are the final effects on the quality of government one should expect from them. It is also uncertain whether these family successions are harmful for society.

This thesis has two main contributions. First, we document the determinants of dynasties across Brazilian local politics. We find that municipalities with dynastic candidates are less likely to have AM radio stations, present lower income per capita and years of schooling. The second and most important contribution of this paper is to examine the effects of political dynasties on political and economic outcomes, using a design that explores the discontinuity in close municipal elections in Brazil as a quasi-experiment. Specifically, we identify the consequences of dynasties in municipalities with high political competition and where at least one candidate for the mayor office was dynastic on three different groups of outcomes: the socioeconomic characteristics of mayors; political competition and policy choices; and welfare. In the first group of outcomes, we report a positive and significant effect of dynasties on the probability of electing a woman, a negative effect on mayor's age, but no effect on the probability of electing a candidate with a college degree. Our results also indicate that dynasties increase the political legislative support of mayors, but this increase does not lead to a greater power to approve laws. When we investigate the effects of family successions on the second group, we find that dynasties do not affect any of the outcomes, which include the political competition in the following election, the quality of the administration, the size of the government apparatus and long term investments. In the last group, the evidence indicates no effect of dynasties on the income per capita growth rate, although the revealed preference of voters suggests that they are unsatisfied with dynastic politicians' offices.

The political competition of close municipal elections plays a crucial role on the interpretation of these effects. Downs' (1957) classical model predicts that political competition would lead to a unique subgame-perfect equilibrium where candidates compromises themselves with the same optimal policy. Considering that the two candidates postulated in the model are the dynastic and the non-dynastic ones, the prediction of this model leads to a situation where both candidates behave in the same

way, once in office. Therefore, political competition may inhibit dynastic mayors to alter politics the way they intend.

Recent papers have identified a self-perpetuation effect of political dynasties. Dal Bo et al (2009) document that when a legislator lasts longer in power, he increases his probability of starting or continuing a political dynasty. Querubin (2010, 2) finds that the effect of incumbency itself is higher than the effect of a longer period in office on that same probability. Both of these works use the discontinuity of close elections as a quasi-experiment to identify this causal effect. Rossi (2010) explores a lottery that assigned different term lengths to the legislators during the redemocratization in Argentina as a natural experiment to identify the same effect. Querubin (2010, 1) finds that the introduction of term limits in the Philippines is not able to avoid the persistence of families in power. Although these articles document a self-perpetuation of political dynasties, they do not attempt to examine the effects of these families on political and socioeconomic outcomes. The main contribution of this paper is to identify these effects.

Another literature that relates to this paper looks into the relation between historical political concentration and current development. Ferraz and Finan (2009) find that Brazilian municipalities with higher political concentration in the 20<sup>th</sup> century<sup>2</sup> have lower levels of current development. Acemoglu et al (2007) document that municipalities with greater political concentration<sup>3</sup> in the 19<sup>th</sup> century in Cundinamarca (Colombia) are less developed today. We contribute to this literature by looking for a causal effect of a specific political concentration (dynasties) on development indicators from a different perspective: the short term.

This thesis also relates to the finance literature that identifies a negative impact of family succession of CEOs on firm performance. Bennedsen et al (2007) use the gender of the CEO's first child as an instrument for family succession. Their results indicate

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<sup>2</sup> They use the Herfindahl index for the number of elections won by the same family as a measure of political concentration.

<sup>3</sup> The measure of political concentration is the negative of the ratio of the number of different individuals in power over the number of mayor appointments, but the same results are found using families instead of individuals in the construction of this measure.

that firms with a dynastic CEO present an operating profitability on assets 4 percentage points lower than those with a professional, nonfamily CEO. We identify the consequences of these family successions in the political environment. Adams et al (2005) find that CEOs cannot affect firm outcomes when they do not have influence over crucial decisions. This paper follows this argument in the political context, presenting evidence that dynastic politicians are unable to affect public policies when there is high political competition, which should diminish their influence on important decisions.

As far as we know, this is the first paper to document a causal effect of political dynasties on socioeconomic outcomes. This identification would help us understand the consequences of the self perpetuation of dynasties on society, and indicate how serious Querubin's (2010, 1) result, that the introduction of term limits has no impact on dynastic persistence, could be. Furthermore, identifying a short term effect should allow us to better comprehend the channels through which the long term effects of political concentration occur.

Finally, dynasties are particularly important in politics due to their high incidence. Dal Bo, Dal Bo and Snyder (2009) show that if one controls for the share of the population in each profession, dynasties in politics are seven times more common than in the occupation with the second highest dynastic share, which are economists, using data from the United States between 1789 and 1996.