Private Enterprise Development in Low-Income Countries

Social Origins of Dictatorship: Elite Networks and Political Transitions in Haiti

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Existing theories of democratic reversals emphasize that economic incentives should determine when elites resist democracy. We argue that the capacity to organize coups against democracy is also important, and is shaped by the structure of the social network.

Introduction

Between 1960 and 2010, 51 countries have experienced a total of 71 democratic reversals. Existing theories suggest that coups against democracy tend to occur when democracy is very threatening to a group that has the de facto power to overthrow the government, particularly economic elites. These theories suggest that elites should be more likely to participate in coups the more they have to fear from redistribution by a democratic government.

But ultimately, coups are political collective action. We argue that the capacity to successfully organize coups should also matter in explaining coup participation. We suggest that kinship and family ties, particularly in weakly institutionalized societies, are a crucial component of elite capacity to engage in collective action. We capture this idea with a model of elites as strategic actors existing within a social network that is made up of kinship ties. We model coup participation as a decision with strategic complementarities within this network, such that an elite's incentive to participate in the coup is increasing in the participation of his kin. In practice, these complementarities could come from higher levels of trust, information flows, or altruism within family structures. This model predicts that the extent of participation in the coup is nearly proportional to the family's centrality in the elite kinship network. In other words, the higher up and the more connected the family is in within the local elite, the greater the likelihood that it participates to a coup.

The economic side of the model is set up in order to capture the empirical features of Haiti and other small open economies with low state capacity (i.e. ability to govern and administer its territory) that use tariffs as a primary source of revenue. Each elite in the model is involved in a particular sector that is competitive under democracy but under non-democracy is protected by a tariff that allows elites who participated in the coup to raise prices and extract rents. These tariffs, however, negatively impact the welfare of citizens because they are inefficient (i.e. incorrectly set) and result in higher prices of consumer goods, even staple products that are inputs into child health.

To sum up, this model provides three key implications that we explore empirically. First, elites who are more central in the social network should be more likely to participate in coups against democracy. Second, elites who participate in coups should benefit economically from higher consumer prices of their goods. Third, children's health should suffer during periods of non-democracy, particularly in places that are dependent on imported goods.

Context

We test these three implications of the model using data from Haiti. Haiti is quite underdeveloped and unequal with 65% of its population below the poverty line[1] and a Gini coefficient[2] of income inequality of

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[1] The estimated minimum level of income needed to secure the necessities of life, which was $1.90 a day as of October, 2015.
[2] The most commonly used measure of inequality, ranging from 0 to 1 where 0 means perfectly equal and 1 perfectly unequal.

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around 0.6. Until 1990, it was ruled by a series of non-democratic regimes, most notably the Duvaliers from 1957 to 1986. Beginning in the 19th century, traders, many of whom had foreign origins, dominated the markets for imports. Monopolies in sectors like rice, milk, and soap were used as patronage rewards for economic elites who worked with the government.

After the fall of the Duvalier regime, Jean-Bertrand Aristide was elected in Haiti's first peaceful and transparent elections. Aristide held power for just seven months, during which time he focused on increasing tax revenues and imposing price controls on staple goods. He was deposed by a military coup backed by business interests in September 1991. Three years after the U.S. imposed targeted sanctions on the orchestrators of the coup, Aristide was reinstated. In 2004, he was forcibly removed from office a second time, again with the backing of economic elites.

Haiti is a good case for testing this theory for five reasons. First, Haiti's high political and economic inequality is archetypical of many politically unstable countries. Second, Haiti offers unique individual-level data on coup participation. After the 1991 coup, the U.S. Treasury Department created a list of coup leaders on the basis of rigorous intelligence efforts in order to impose targeted sanctions. Third, Haiti offers rich data on the genealogies, migration and public service records of elite families going back to the 19th century that allow us to map social networks and involvement in business and politics. Fourth, much of the wealth in Haiti comes from international trade, particularly imports, for which fine-grained data exists that gives us a view of the sectors in which elite families are involved. Finally, given our focus, it is advantageous that there is variation in the key dependent variable because of frequent coups and transitions.

Design and results

-   *Elite participation*

First, we test whether elites who are more central in the social network should be more likely to participate in coups against democracy. To do this, we first construct a dataset at the level of the family name that includes data on each family's centrality in the network of marriage ties, history of political and military service. For families involved in trade we also control for the value of their business interests and characteristics of their sectors that should make them more vulnerable to predation or taxation. We use this data to estimate how network centrality, conditional on economic interests and past participation in politics or the military, is related to the probability of participating in the 1991 coup against the democratic Aristide regime.

We find that a one standard deviation increase in centrality in the family network is related to a 10-21 percentage point increase in the probability of participating in the coup. On the other hand, we find that product characteristics that should give elites an economic interest in opposing democracy do not seem to matter. This result is robust to a range of different Specifications used.

-   *Economic Benefits*

Second, we test whether economic elites who participate in the coup benefit differentially during periods of non-democracy. In this analysis we focus on elites who import products that are part of the Haitian Consumer Price Index, for which we constructed a time series of consumer prices from 2001 to 2013. We collapse our data on ownership and family characteristics to the level of the product to create a dataset of monthly prices for 18 key products including those that make up the highest proportion of the Haitian consumer's basket including rice, sugar, and cooking oil. We test[3] whether products for which coup

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[3] We use a difference-in-difference design to test this. In some specifications, we control for lagged measures of the dependent variable to control for dynamic trends, the supply prices of the goods, and the interactions of product characteristics and being in a non-democratic period.

participants control more of the market experience steeper price increases during the 2001-2004 period of non-democracy.

We find that the retail prices of goods imported by coup participators rise significantly during periods of autocracy. During autocratic periods, a product that is imported by only coup participators grows by about 1.7% per month faster than products imported by no coup participators. Accounting for the price dynamics, this translates to a 32% increase in the price of the good. Taking as our benchmark product rice, which cost on average 7.7 HTG per pound in the pre-coup period, and a coup participation rate of 88%, our estimates imply that the transition to dictatorship increased the price of rice by 28% to 9.8 HTG per pound.

- *Impacts on Child Health*

Finally, we test whether citizen welfare, immediately proxied by child health, declines during non-democratic periods. While the documented price increases are suggestive of welfare losses, it is possible that easy substitutes were available. We look at the effect of autocracy on urban versus rural children[4]. Urban children are more likely to be affected by increases in the prices of products like rice and maize because they are more dependent on imported products than rural children, who get a larger portion of their calories from home production. To implement this test, we use a time series of data from 1991 to 2012 on the heights and weights of children under 5 from the Demographic and Health Surveys carried out in Haiti.

We find that being born in urban areas during an autocratic reversal is associated with a decline in the weight-for-age and height-for-age z-scores[5] of children under five. Substantively, this negative effect on height is quite large. The negative effect of autocracy on the heights of urban children is approximately the same magnitude as the difference in height between boys and girls. It is approximately 8-14% of the difference in heights between Haitian children and the global reference mean. In addition to this differential effect on children born in urban areas, rural children born during autocratic reversals are also significantly smaller. However, there is no discernible effect on under-five mortality.

- *Policy Implications*

While previous theories have focused on reforming institutions or redistributing assets as mechanisms for consolidating democracy, our results suggest that transforming elite networks during democracy may be an important component of reducing the likelihood of future coups. Indeed, elite social capital may have to decay for democratic capital to accumulate. One possible policy implication is that social network structures, and how they intersect with political institutions and economic inequality, should be taken into account by agencies working to promote responsive democratic institutions. Interventions to make social structures more integrated across class lines could reduce the relative importance of a few key elite players.

Moving Forward…

The next steps for this project involve expanding the analysis beyond a single country to test the hypothesis that social network density may explain resistance to democratization.

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[4] Again using a difference-in-difference design.
[5] It indicates how many standard deviations an element is from the mean.