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The Non-Democratic Roots of Elite Capture: Evidence from Soeharto Mayors in Indonesia

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Abstract

Democracies widely differ in the extent to which powerful elites and interest groups retain influence over politics. While a large literature argues that elite capture is rooted in a country's history, our understanding of the determinants of elite persistence is limited. In this paper, we show that the way in which democratic transitions unfold is a key determinant of the extent of elite capture. We exploit quasi-random variation that originated during the Indonesian transition: Soeharto-regime mayors were allowed to finish their terms before being replaced by new leaders. Since mayors' political cycles were not synchronized, this event generated exogenous variation in how long old-regime mayors remained in their position during the democratic transition. Districts with longer exposure to old-regime mayors experience worse governance outcomes, higher elite persistence, and lower political competition in the medium-run. The results suggest that slower transitions towards democracy allow the old-regime elites to capture democracy.

JEL Codes: D72, H75, O12, P16.

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1 Introduction

Since the early 1990s most countries in the world have had political systems that are defined as democratic. However, democracies widely differ in the quality of their political institutions. Oftentimes elites and powerful interest groups retain a disproportionate amount of influence over the policy making process. While most scholars argue that elite capture is detrimental for political accountability and long-run development, we have a limited understanding of the factors that facilitate the emergence and persistence of elites.

A large literature in political science¹ and a rapidly growing literature in theoretical economics² argue that elite capture in democracies has its roots in the recent authoritarian past of countries. Institutions developed during the non-democratic period can persist and facilitate the continued influence of old-regime elites in the subsequent regime. For instance, a new democracy can inherit the constitution, a large army, or an inefficient bureaucracy from the previous regime. However, the empirical evidence on the presence of these non-democratic legacies and on their effects on elite capture is scarce. Furthermore, we have a limited understanding of how the persistence of old-regime elites depends on the way the democratic transition unfolds.

In this paper, we exploit a quasi-random variation that originated during the Indonesian transition to democracy and that affected the degree to which old-regime elites could capture local power. In 1998, the regime of General Soeharto unexpectedly came to an end. However, the Soeharto-appointed district mayors were not immediately replaced by democratically elected leaders. Instead, they were allowed to finish their five-year terms before new elections were called for. Since the timing of appointments of Soeharto mayors was different across districts, this event generated exogenous variation in the length of time during which these mayors remained in office during the democratic transition.

Democratic transitions represent a critical juncture, along the lines described by Acemoglu and Robinson (2012). During this period, new parties are created, new alliances are formed and new institutions are developed. Small differences in pre-existing conditions during critical junctures can lead to a process of institutional drift that generates important differences in long-run development. In this paper, we argue that small differences in the number of years that Soeharto mayors served during the democratic transition had substantial effects on the extent of elite capture in the subsequent democratic period.

We first document that the appointment timing of the last wave of mayors appointed by the Soeharto regime—henceforth, *Soeharto mayors*—is orthogonal to pre-determined district characteristics, such as the level of public good provision, socio-economic conditions,

¹See for instance, O'Donnell and Schmitter (1986), Linz and Stepan (1996).

²See for instance, Acemoglu and Robinson (2008), Acemoglu, Ticchi and Vindigni (2010, 2011).

and electoral support for Soeharto’s party. We also document that Soeharto mayors that were appointed in the last years of the regime have similar observable characteristics. This evidence supports our main empirical specification, where we regress a number of measures of quality of governance, which are measured about a decade after the transition, on the year of appointment of the last Soeharto mayor. The later the appointment date, the higher the number of years that Soeharto mayors were in office during the democratic transition.

Our first set of results examines the effects on quality of local governance. We document that districts with longer exposure to Soeharto mayors during the transition exhibit lower levels of public good provision, in particular in health and education. We also find that those districts have weaker rule of law and greater prevalence of rent-seeking: private sector firms are more likely to report that they face regular extortion from the military and police groups. These results are present at the time when the term of all Soeharto mayors had already expired. Hence, the effects we estimate cannot be accounted for by the direct presence of the Soeharto mayors in office.

These results are consistent with the hypothesis that the presence of Soeharto mayors in office during the democratic transition facilitated elite capture and, hence, led to worse governance outcomes in the medium-run. In Appendix A, we present a formal model that characterizes this mechanism. Our framework is based on the model developed by Acemoglu and Robinson (2008), where elites can invest in *de facto* power to compensate for the increase in the amount of *de jure* power that citizens obtain with democratization. The results indicate that districts where the elite mayor has more periods to invest in *de facto* power end up investing more in equilibrium. As a result, those districts exhibit greater persistence of old-regime elites in power and lower levels of political competition. Our proposed mechanism is also consistent with a vast qualitative literature which documents that Soeharto-era elites used a variety of strategies to perpetuate their hold on power during the early stages of the democratic transition (Robinson and Hadiz, 2004; Honna 2010).

Our second set of results presents evidence more closely connected with the mechanism that, we argue, is behind these results. First, we examine the extent of elite persistence. We find that, about a decade after the transition, districts with the longest exposure have a 30% higher probability of having mayors closely connected to the Soeharto regime — i.e., mayors that were members of the military, bureaucrats, or politicians, during the Soeharto regime. Second, we demonstrate that those districts exhibit greater electoral support for Golkar, Soeharto’s party. These results are notable since we also show that there were no pre-existing differences in support for Golkar during the Soeharto regime. Third, we document that those districts exhibit lower levels of political competition during subsequent mayoral elections. Fourth, we present suggestive evidence that exposure to Soeharto mayors

during the democratic transition weakened political accountability: in those districts that experienced the longest exposure to Soeharto mayors, the likelihood of reelection of subsequent mayors does not decrease with poor performance in public good provision. This can, in turn, explain the low levels of public good provision, since subsequent mayors may have had weaker incentives for performance.

This paper relates to the literature that has studied the historical roots of development and quality of governance. The previous literature has stressed how colonization, slavery, or other historical events affected the quality of institutions and economic performance.³ We contribute to this literature by examining the roots of elite capture in countries' more recent authoritarian past and by documenting that events that take place during democratic transitions can substantially affect the persistence of elites and institutions across regimes.

This paper is also related to the political science and economics literature on democratization and on the determinants of democratic consolidation. Some examples are O'Donnell and Schmitter (1986), Linz and Stepan (1996), Acemoglu and Robinson (2008), Acemoglu, Ticchi and Vindigni (2010, 2011). This literature has argued that nondemocratic elites use a variety of methods to retain their influence in politics after democratization. We contribute to this literature by providing empirical evidence that events that facilitate investments in *de facto* power during the transition can facilitate elite capture in the subsequent regime.^{4,5}

The paper also relates to the literature on elite capture in democratic politics by means of vote buying, lobbying by interest groups, use of patronage networks, use of force or the threat thereof. This literature has had a number of important theoretical and empirical contributions. Some examples are Bardhan and Mookherjee (2000), Fisman (2001), Dal Bó and Di Tella (2003), Robinson and Torvik (2005), Finan and Schechter (2012), Alatas et al. (2013). Our paper has also close connections with the literature that has studied the determinants of political dynasties and how institutional reforms affect the continuity in power of these elites (Dal Bó, Dal Bó, Snyder, 2009; Querubin, 2011). We add to this

³See Nunn (2009) for a literature review.

⁴To the best of our knowledge, there are only two other papers that have empirically documented the impact of nondemocratic legacies on governance outcomes. Albertus and Menaldo (2014) show that income redistribution is lower in democracies that are preceded by democratic transitions where nondemocratic elites remained powerful—e.g. in transitions where the new democracy adopted the constitution of the previous regime. Martinez-Bravo (2014) shows that the village-level appointees that a new democracy inherits from the previous regime have strong incentives to manipulate voters for strategic reasons. Hence, they represent a legacy from the nondemocratic regime that, under certain conditions, can prevent democratic consolidation.

⁵Our paper also contributes to the debate in political science about the optimal speed of democratic transitions. O'Donnell and Schmitter (1986) argues that democratic consolidation is more likely when the transition is initiated by pacts among elites and, hence, the transition is characterized by gradual changes. In contrast, Di Palma (1990) advocates for settling the main procedural rules at the beginning of the transition and, hence, advocates for faster transitions. The empirical evidence presented in this paper suggests that, at least at the local level, slower or gradual transitions can facilitate elite capture by allowing nondemocratic elites to find ways to capture local institutions.

literature by studying how the way in which the democratic transition unfolds could affect the extent of elite persistence during the democratic period.

The rest of the paper proceeds as follows. Section 2 describes the institutional background; Section 3 provides a conceptual framework to guide our interpretation of the empirical results; Section 4 presents the data and empirical strategy; Section 5 presents the main results of the paper; Section 6 describes a number of robustness checks; and finally, Section 7 provides the conclusions.

2 Institutional Background⁶

2.1 National-Level Political Context

Soeharto's autocratic rule lasted for more than three decades, from 1965 to 1998. During his regime, both the population and opposition parties were under tight control of the government and the military. In May 1998, Soeharto lost crucial support and was forced to step down. The numerous corruption cases that involved Soeharto's family and the economic consequences of the East Asian financial crises led to mass protests against the regime. However, the fall of the regime was quite unexpected. By the year 1997, few predicted the demise of the Soeharto government.

After the fall of Soeharto, a one-year transitional government took office and implemented a number of democratic deepening reforms. The first democratic election after the fall of Soeharto took place in June 1999. National, provincial, and district legislatures were selected during this election. PDI-P, the main opposition party, obtained the largest vote share with 34% of the votes. Golkar (Soeharto's party) obtained 22% of the votes. After a process of coalition formation at the national level, a moderate candidate and the leader of PKB, Abdurramah Wahid, was elected president. Since then, legislative elections have taken place every five years.

2.2 The Importance of District Mayors in Indonesia

Indonesia is divided in districts also known as *kabupaten* or *kota*. Each district has, on average, 500,000 inhabitants. The district mayor position has existed since the Dutch colonial period and has typically been associated with a considerable amount of authority. District mayors have traditionally had substantial powers over local policies, regulations and over the district budget. Since democratization, district governments are also responsible for the pro-

⁶In this section, we provide the main aspects of the background institutional context. For a more detailed discussion see section 1 of Appendix B.

vision of important public goods, such as health and education (Hofman and Kaiser, 2006). After democratization, districts' main source of revenue became non-earmarked transfers from the central government. District governments have discretion about how to allocate these funds. The largest transfer is allocated based on a formula that takes into account population, area, and poverty rate, among other factors.

During the Soeharto regime and the transitional government, district mayors were appointed by the central government. After democratization, the system was reformed and mayors became indirectly elected by the district legislature. The local legislatures resulting from the 1999 election were entitled to elect the mayor according to the rules of proportional representation once the term of the last Soeharto-appointed mayor expired. As described above, the fact that these mayors were not immediately replaced after the 1999 election, and the fact that mayors' terms were not synchronized, generated variation across districts in the length of time for which the Soeharto-appointed mayors were in power during the democratic transition.⁷ The system of selection of district mayors was further reformed in 2005 with the introduction of direct elections. The objective of this reform was to further increase the level of accountability of mayors towards citizens (Mietzner, 2010). Despite these reforms, the term length and term limit of the mayoral position have not changed: district mayors can serve at most two terms of five years each.

2.3 Local Elite Capture

The Soeharto regime was characterized by a dramatic expansion of state capacity and by the development of a vast patronage network that extended from the capital city of Jakarta down to the village-level. Through the allocation of public contracts, concessions, credit, and extra-budgetary revenues, a network of individuals closely connected to the state administration was able to amass large amounts of wealth. This class of individuals typically consisted of members of the bureaucracy and the military. Moreover, they were also members of Golkar, Soeharto's party.⁸ Soeharto-appointed district mayors were central agents of the patronage structure at the district level (Hadiz, 2010). Individuals in the network of the district mayor greatly benefited from the rent-seeking opportunities that the proximity to

⁷There is little documentation of the reasons why Soeharto mayors were allowed to finish their term. This decision was taken by the transitional government, which was closely connected to Soeharto. The subsequent democratically elected government may have lacked sufficient political capital to overturn this policy decision. See section 1.5 in Appendix B for further discussion.

⁸A distinct characteristic of the Soeharto regime is the fact that membership to the elite was defined by their proximity to the state and the bureaucracy. According to Robinson and Hadiz (2004), this is a result of the characteristics of post-colonial Indonesia. The Dutch colonialism did not leave large landowning elites or a powerful urban bourgeoisie. In contrast, their main legacy was the establishment of a well structured bureaucracy. See section 1.1 in Appendix B for more details.

the district government granted. Over time, this group of individuals evolved into a local self-serving elite, whose main objective was to protect the extractive institutions that enabled them to extract large rents from the system.

The fall of the Soeharto regime represented a dramatic change in the dynamics of political power at the local level. The elites nurtured during the Soeharto regime could no longer remain in power by being loyal to the central government. Democratization led to a change in *de jure* local institutions: as the term of the Soeharto mayor expired, mayors were elected by the local legislature constituted in the 1999 election. Consequently, obtaining electoral support at times of elections became substantially more important. Local elites developed a number of elite-capture strategies to remain influential. Elites developed close alliances with the military, police, and criminal organizations, known as *preman* in Indonesia. These organizations were instrumental in obtaining support from voters and members of the district legislature. These organizations used different combinations of money politics and intimidation strategies, including threats and violence (Hadiz, 2010).

The building of alliances with the military was one of the main strategies of elite capture during this period. During the Soeharto regime and the transition, members of the military were permanently deployed at each level of the administration, from provinces to villages. With an authoritarian central government no longer in power, local military units were free to redefine their alliances. This situation induced the local elites nurtured under the Soeharto regime and locally-deployed members of the military to establish a mutually beneficial arrangement: the military provided support to these elites at times of elections in exchange of the implicit consent to carry out their illegal activities and extortion of private sector firms (Honna, 2010). This *quid-pro-quo* relationship between elites and the military was sustained through an implicit agreement of mutual trust and cooperation. Old-regime elites also resorted to other venues to retain their hold on power, including buying out local media and hiring a network of supporters in the government administration (Hadiz, 2010).

In most of the cases, those individuals holding power had a comparative advantage in the development of these capture strategies: the district mayor and high-level local bureaucrats had access to important resources that they could assign discretionarily. They could also hire or promote individuals that were loyal to them (Hadiz, 2010; Martinez-Bravo, 2014).

Throughout the democratic transition, Golkar continued to be the main political vehicle of the Soeharto-era elites. While there were changes in the national leadership, Golkar continued to represent the autocratic *status quo* and to host a large fraction of former members of the military and the bureaucracy in their ranks (Hadiz, 2010).

These strategies of elite capture have resulted in a substantial amount of persistence of the Soeharto elites in local politics. Several scholars have discussed this phenomenon and

have provided evidence that a large fraction of district mayors elected in the post-Soeharto period had close connections with the Soeharto regime (Mietzner, 2010).

3 Conceptual Framework

In section 1 of Appendix A, we present a theoretical model to guide the interpretation of our results. The model is an adaptation and simplification of the framework developed by Acemoglu and Robinson (2008). Next, we summarize the main insights.

There are two groups in society: a small elite and citizens. They contest power in each district. The game starts as a non-democratic regime and the elites are in power in all districts. For exogenous reasons, the country initiates a democratic transition and local elections are scheduled in all districts. Citizens can contest power and, since citizens are the most populous group, they have a natural electoral advantage. In order to prevent citizens from taking power, the elites can invest *de facto* power. We assume that there are two types of districts. In the first set of districts, local elections are scheduled after one period, and that is the amount of time the elites have to invest in *de facto* power. In contrast, in the second type of districts the elites have more time to invest in *de facto* power as local elections are scheduled to take place in two periods. We refer to these as *one-period* and *two-period* districts, respectively. The costs of investments in *de facto* power are increasing and convex in each period. After investments are made, elections are held, payoffs are distributed, and the game ends.

The main results of this model correspond to the equilibrium levels of investments in *de facto* power in each type of districts. First, we show that, the per-period investment is larger in one-period districts than in two-period districts. One-period elites try to compensate their shorter window to invest in *de facto* power by increasing the intensity of their investments. However, the overall investment (across periods) is higher in two-period districts. In other words, districts that are given more time to invest in *de facto* power end up investing more.

Mapping to the Indonesian Context and Empirical Implications

The above conceptual framework was designed to match specific features of the Indonesian democratic transition. For instance, the staggered replacement of Soeharto mayors generated variation in the amount of time that those mayors had available before they faced elections. The qualitative literature suggests that Soeharto mayors used this time to develop different strategies of elite capture. These strategies can also be understood as investments in *de facto* power. For instance, Soeharto elites could make a deal with the local military to obtain their support in exchange of budgetary allocations or implicit permission to engage in rent-seeking activities. Similarly, the Soeharto mayors and their cronies could hire

a network of political brokers that would buy votes at time of elections or would intimidate opponents. These tasks were typically conducted by criminal organizations—*preman*—or by loyal individuals hired in the government administration.

The model assumes that these investments in *de facto* power are costly and that the cost function is increasing and convex. As a result, the elite prefers to spread the investment over multiple periods. This assumption captures the idea that elites only have limited time and resources to simultaneously realize multiple investments in *de facto* power of different nature. One way of capturing this in the model is to assume that the marginal cost of investments in *de facto* power is increasing in the number of elite capture activities that elites undertake. Furthermore, it is likely that time gives other advantages in the production of *de facto* power. For instance, the construction of a network of political brokers may need time to identify suitable candidates. Time can also facilitate the development of stronger alliances with the military or with political brokers.⁹

The model assumes that elites only invest in *de facto* power after democratization. This matches the Indonesian context: during the Soeharto regime, local elites could persist in power by being loyal to Soeharto. Only when losing power at the local level became a possible outcome, elites had incentives to undertake costly investments in the development of elite capture strategies. Furthermore, democratization also changed the optimal electoral manipulation strategies. During the Soeharto regime, there was no risk of Golkar losing the election. Hence, massive implementations of vote buying schemes were not necessary. With democratization, vote buying had become a more extended practice (Antlöv, 2004).

To sum up, the conceptual framework presented in this section predicts that districts that have more time to invest in *de facto* power end up investing more. This has a number of empirical implications. First, we expect to find higher levels of elite persistence in districts where the Soeharto mayor was in power for longer during the democratic transition. Second, we expect to find lower levels of political competition. Effective elite capture strategies diminish real power contestation and decrease the possibility of losing power. Third, low levels of political competition weaken the incentives of subsequent mayors to exert effort and deliver public goods. Hence, we expect to find lower levels of public good provision and higher levels of rent-seeking.¹⁰

⁹Note that the latter two possibilities are not explicitly captured by the model. Our model is highly stylized and imposes minimal assumptions on the production function of *de facto* power. In particular, we assume that the resulting level of *de facto* power is only a function of the total investment across periods. Hence, the production function of *de facto* power does not take into account the time dimension.

¹⁰This is consistent with a recent empirical literature that documents that low levels of political competition are associated with low public good provision and with negative economic outcomes. See Besley et al. (2010) and Acemoglu et al. (2014).

4 Data & Empirical Strategy

Data Our main measure of exposure to Soeharto mayors during the transition is obtained from documenting the political histories of district mayors in Indonesia. We use data collected by a team of researchers at the World Bank (Skoufias et al., 2011). Since this information was missing for 44% of the Soeharto mayors, we complement the dataset using information available from the Government of Indonesia’s Official Directories. Overall, these two data sources provide us with the names, appointment dates, and end dates of the district mayors that were in office between 1988 and 2004. We complement these data with information on the background occupations of mayors, which we collected through online searches on Indonesian news portals and personal websites of mayors.

Our outcome data come from different sources. We describe them as they become relevant throughout the text. See section 2 of Appendix B for an exhaustive list of all datasets used in this paper and for details on the construction of the main dataset.

Our estimating sample corresponds to districts that have complete information on outcomes and covariates and did not split during the sample period.¹¹ Furthermore, in our baseline sample we drop districts where the last Soeharto mayor was appointed in the year 1998. Since Soeharto stepped down on May 1998, most of the 1998 appointments were made by the transitional government. Hence, these appointments are likely to be different in nature, which hinders the interpretation of these results.¹² The resulting sample consist of 129 districts.

Empirical Strategy Figure 1 shows the timing of events, which helps to illustrate the empirical strategy. Until the end of 1998, district mayors were appointed by the Soeharto regime or the transitional government. The possible appointment dates of the last group of Soeharto mayors ranged from 1994 to 1998. These mayors were allowed to finish their five year term before being replaced by mayors indirectly elected by the local legislatures, which were constituted in 1999. Hence, in some districts Soeharto mayors were in office until 2003, represented in the figure by the shaded interval period.

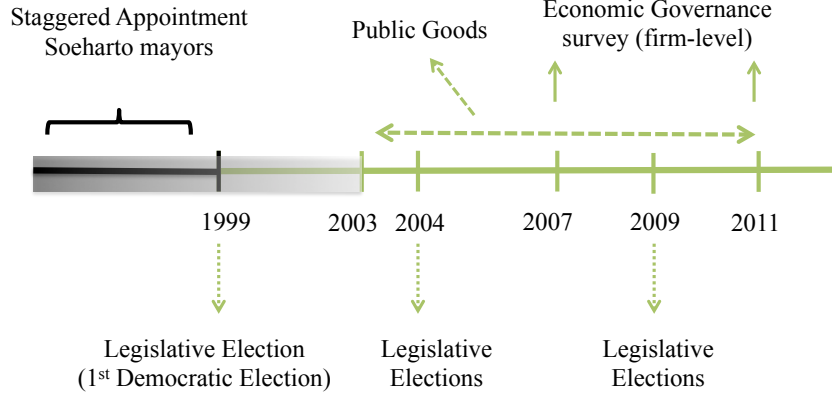
Figure 1 also shows that all our outcomes are measured after 2003, once Soeharto mayors were no longer in office. Hence, the effects we estimate cannot be accounted for by the direct presence of the Soeharto mayors in office.¹³

¹¹District division can generate particular political dynamics that can confound the mechanisms described in this paper. See sections 2.2 and 3.6 in Appendix B, for further details and robustness checks.

¹²See section 3.5 in Appendix B and for the results including districts with appointments in 1998.

¹³Soeharto mayors were allowed to run for office during the democratic period, but the reelection rates were low. About 12% of them were reelected.

Figure 1: Timeline of Events and Outcome Measurement



Our main empirical specification is the following:

$$y_{jdh} = \alpha_0 + \alpha_1 YearApp_d + \delta_h + X'_d \gamma + Z'_j \lambda + \varepsilon_{jdh} \quad (1)$$

where y_{jdh} is the outcome of interest for subject j , located in district d in island group h . $YearApp_d$ is the year of appointment of the last Soeharto mayor in district d . δ_h are island group fixed effects.¹⁴ X'_d are district-level controls, in particular, the vote shares of Golkar and PDI in the 1992 election of the Soeharto regime. Z'_j include subject-level controls.¹⁵

The higher the value of the $YearApp_d$, the longer the time that the last Soeharto mayor remains in power during the democratic transition. Hence, we expect to find $\alpha_1 < 0$ when the dependent variable is a measure of quality of governance or public good provision.

In a second specification we relax the linearity assumption of the treatment effect by replacing $YearApp_d$ with dummies for the different years. The omitted category corresponds to districts with appointments in 1994. Similarly, we expect the coefficients on these dummies to be negative and increasing in absolute magnitude in the appointment year.

Note that our regressors of interest correspond to the appointment timing rather than to the timing of the end of the Soeharto mayor's term. We use appointment timing because it precedes the fall of Soeharto and, hence, it is more likely to be exogenous to political factors determined during the democratic transition. The estimates should be interpreted as capturing the *Intention To Treat* effects. However, the appointment and ending timings are strongly correlated. See Table 1 in Appendix A for the cross tabulation of appointment and ending timings.

The main identifying assumption is that the timing of appointment of the last Soe-

¹⁴The main island groups are Java and Bali, Kalimantan, Maluku, NT, Papua, Sulawesi, and Sumatra.

¹⁵When the outcome is measured at the village level, we control for village size. When the outcome is measured at the firm level we control for size and age of the firm. See table notes for details.

Soeharto mayors is as good as randomly assigned, conditional on controls— i.e., exogenous to underlying factors that could have affected the quality of local governance or public good provision during the democratic transition. We find that this assumption is plausible for several reasons. First, appointment timing precedes the fall of the Soeharto regime and was pre-determined. Appointments have been regularly scheduled for the years when the term of the previous mayor expired since the latter part of the Dutch colonial period. Any accumulation of early terminations, for health or other reasons, could have generated a staggered pattern of appointment timings in the long-run. Second, the fall of the Soeharto regime was unexpected and unrelated to the political dynamics of specific districts. It is the combination of these two features, what makes the appointment timing of the last Soeharto mayors likely to be uncorrelated to potential outcomes of districts during the transition.

In section 3 of Appendix B, we provide empirical evidence supporting the exogeneity of the appointment timing. We show that the appointment timing is uncorrelated with a large number of pre-determined district characteristics. Furthermore, we show that the last cohorts of Soeharto mayors are similar in observable characteristics, such as level of education, background occupation, age, and region of birth. This suggests that the appointment pattern did not change in the years leading to the end of the Soeharto regime and it is consistent with the unexpected nature of the fall of the regime.

5 Results

Effects of Exposure on Quality of Governance The first governance outcome that we study corresponds to extortion of private sector firms. We obtain this measure from the Economic Governance Survey, conducted in 2007 and 2011, to a large number of firms. Firm managers were asked whether they had to regularly pay illegal fees to different organizations to protect their own security. The prevalence of regular extortion of firms indicates that property rights were vulnerable and that rule of law was not strictly enforced.

Table 1 presents the results for illegal fees paid to the military and police. Column 1 shows that each additional year that a Soeharto mayor was in office during the transition increases the likelihood of illegal payments to the military or the police by 2.4 percentage points. This represents a 17% increase over the sample mean, which is a sizable increase. Column 2 relaxes the linearity assumption of the treatment effects by including dummies for the different appointment years. The magnitude of the coefficients is increasing in the year of appointment and it is the highest for districts with appointments in 1997. The results suggest that, in districts with the longest exposure to Soeharto mayors, firms have a 7.6 percentage points higher probability of having to pay illegal fees to the security forces, which

represents a 54% increase over the sample mean.¹⁶

Table 1. Effects of Exposure to Soeharto Mayors on Quality of Governance

	Dependent Variables:					
	Illegal Payments to Military or Police		Z-Score Education Public Goods per Capita		Z-Score Health Public Goods per Capita	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Mean Dep. Var.</i>	0.14	0.14	0	0	0	0
Year of Appointment	0.024*** (0.009)		-0.047*** (0.017)		-0.061** (0.024)	
Appointment 1995		0.042*** (0.015)		-0.060 (0.062)		-0.021 (0.063)
Appointment 1996		0.049** (0.023)		-0.115** (0.057)		-0.185*** (0.069)
Appointment 1997		0.076*** (0.029)		-0.128** (0.055)		-0.068 (0.078)
Observations	8,147	8,147	13,014	13,014	12,665	12,665
R-squared	0.039	0.039	0.117	0.117	0.119	0.126
Number of Clusters	127	127	108	108	108	108

Notes: Standard errors clustered at the district level in parentheses. In columns 1 and 2 the unit of observation is the firm. The dependent variable takes value 1 if firms report having to pay illegal fees to the military or police to protect their own security. In columns 3 to 6 the unit of observation is the village. The dependent variables corresponds to z-scores of public good provision in education and health from the 2011 village census. All specifications include as controls island-group fixed effects and Golkar and PDI 1992 vote shares. Columns 1 and 2 also include controls for the number of years of experience of the firm, number of employees, and a dummy for the wave of the EGI survey. Columns 3 to 6 include controls for a quartic in log population. *** p<0.01, ** p<0.05, *p<0.1.

These results suggest that districts where the Soeharto mayors were in office for longer during the transition had weaker protection of property rights. Given the large literature that documents the importance of property rights for economic performance,¹⁷ it is likely that these rates of extortion were detrimental for business activity.

Furthermore, these results are also consistent with the Indonesian qualitative literature that suggests that security forces were instrumental in the elite capture strategies of old-regime elites. Soeharto-era elites established a *quid-pro-quo* relationship where the military provided support to local elites at times of elections in exchange of the implicit consent to carry out their illegal activities, including extortion of private sector firms. While we do not have direct evidence that the firm extortion benefited the local elites linked to the incumbent mayor, the evidence suggests that elite capture strategies were more prevalent in districts that had longer exposure to Soeharto mayors during the transition.

¹⁶ In Section 2.1 of Appendix A we show additional results for illegal fees paid to local officials and criminal organizations. These other forms of rent extraction are less prevalent. Consequently, the effects are less precise. However, the results are similar in magnitude. We also show that the results are robust to restricting the sample to those firms that are the least likely to be connected to the Soeharto elites. In particular, to small firms whose owners do not know the mayor in person.

¹⁷See, for instance, Acemoglu, Johnson and Robinson (2001), Besley (1995).

Next, we examine the effects on public good provision. We obtain measures of the availability of public services from the Village Census. We present evidence on the availability of health and education public goods. Columns 3 to 6 of Table 1 report the results for the standardized averages, or z-scores, of different groups of public goods, measured in the 2011 village census.¹⁸ The results suggest that every additional year of exposure to Soeharto mayors reduces public goods in education by 0.047 standard deviation, and in health public goods by 0.061 standard deviations. The point estimates on the different appointment years are increasing for education public goods and less precisely estimated for health public goods.

An important advantage of the use of the village census is that measures of public good provision are reported for several years. This allows the implementation of a panel-data specification to control for district-level unobserved heterogeneity. We construct a village-level panel for a number of years between 1986 and 2011. We exclude the years when the Soeharto mayors were in office in order to compare the pre-appointment period, to the period when public goods are potentially affected by the legacy of their elite capture strategies.¹⁹ More specifically, we estimate the following econometric model:

$$y_{jdt} = \gamma_0 + \gamma_1 YearApp_d \times Post_2003_t + \delta_d + \rho_t + \varepsilon_{jdt} \quad (2)$$

where y_{jdt} is a public good outcome in village j of district d in year t , $YearApp_d$ is the year of appointment of the last Soeharto mayor, $Post_2003_t$ takes value 1 for years 2003 and later, δ_d are district fixed effects, ρ_t are year fixed effects. This specification is equivalent to a *Difference-in-Differences* specification, where we compare public good provision before and after Soeharto mayors were in office, and across districts that had different levels of exposure to Soeharto mayors during the transition.

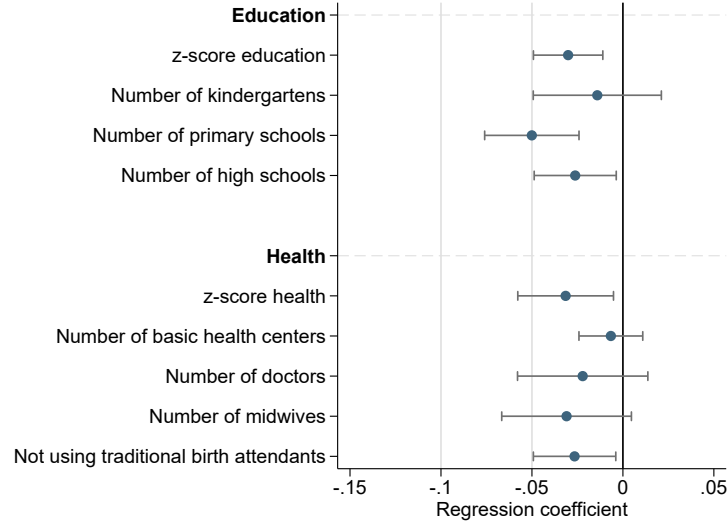
Figure 2 presents the estimates of γ_1 for the different measures of public goods and the estimates for the standardized z-scores to assess the joint significance of the effects. The z-scores for education and health show negative effects of 0.03 standard deviations that are statistically significant at the 5% level. Furthermore, the point estimates for all outcomes are consistently negative. Overall, these results show that districts with longer exposure to Soeharto mayors during the transition experienced a deterioration in public good provision relative to districts with shorter exposure. Furthermore, the results on the cross-sectional and panel specifications are similar, consistent with the assumption that the appointment timing is orthogonal to unobservable district-level characteristics.

In sections 2.1 and 2.2 of Appendix A, we provide a detailed discussion and present

¹⁸See Figure 2 for the list of outcomes included in each z-score. We focus on these outcomes because of three reasons: they are central for the well-being of citizens; they are under the direct control of the district mayors; and they are available in several waves of the village census.

¹⁹In particular, we include the following years: 1986, 1990, 1993, 2003, 2005, 2008, and 2011.

Figure 2. Effects of Exposure to Soeharto Mayors on Public Good Provision (Panel)



Notes: Each public good out outcome is expressed in per-capita terms and standardized. Point estimates and 90% confidence intervals shown in the figure.

additional measures of public goods. In particular, we show suggestive evidence that districts with higher exposure to Soeharto mayors experienced higher child and maternal mortality, and achieved, on average, lower test scores in national exams.

Evidence on the Mechanism: Elite Persistence & Political Competition The results presented so far provide evidence that districts with later appointments of the last Soeharto mayors exhibit worse governance outcomes in the medium-run. In section 3, we presented a particular mechanism, which provides a plausible explanation for these results and that is in agreement with the qualitative literature on the Indonesian democratic transition: those Soeharto mayors that were appointed later, served for more years during the transition and, hence, had more time to adjust to the new political scenario. As a result, they were able to undertake greater investments in *de facto* power. These investments led to more elite capture and lower political competition. Subsequent mayors in districts with higher elite capture had weaker incentives for performance. This can explain the evidence on lower provision of public goods and the higher rates of rent-seeking. Next, we present additional empirical evidence more closely connected to our proposed the mechanism.

First, we examine the effects on elite persistence. For this purpose we collected a novel dataset on the professional background histories of the mayors elected in the first direct elections that were introduced starting in 2005.²⁰ Following the work of Indonesian scholars,

²⁰Direct elections for mayor were introduced in a staggered fashion between 2005 and 2008 as the term of the previous mayor expired. In the empirical specification we add controls for early elections. See section

we define membership to the old-regime elite by previous occupation.²¹ We define mayors as connected to the Soeharto elites if they were members of the military, bureaucrats, or politicians, *during* the Soeharto regime, i.e., before 1998. To increase the representativeness of this exercise, we collect information on the mayor and vice-mayor.²²

Column 1 in Table 2 presents the results. The dependent variable takes value 1 if either the mayor or the vice-mayor were connected to the Soeharto regime, and 0 otherwise. The mean of this variable is 0.71 suggesting that a large fraction of districts in Indonesia elected mayors linked to the old-regime. Panel A reports the results of our baseline, linear specification. The results indicate that every extra year that a Soeharto mayor is in power during the democratic transition increases the likelihood of elite persistence by 11 percentage points, which represents a 16% increase over the sample mean. Panel B reports the flexible specification using dummies for the different appointment years. The point estimates exhibit an increasing pattern, with the strongest effects corresponding to years of appointment 1996 and 1997. Hence, consistent with the mechanism suggested in Section 3, there is a higher prevalence of elite persistence in districts where the Soeharto mayors were in office for longer during the early stages of the democratic transition.

Second, we examine the effects on the presence and support for Golkar. Golkar was Soeharto’s party and, after democratization, Golkar continued to be the preferred political vehicle of the old-regime elites. In column 2 of Table 2, we examine the effect on the likelihood that the directly elected mayors were supported by Golkar.²³ The results indicate that every additional year of exposure to Soeharto mayors during the transition, increases the likelihood of having in office a mayor supported by Golkar by 13 percentage points. Panel B shows that the effects are increasing in magnitude, being the highest for districts with the longest exposure to Soeharto mayors.

Columns 3 to 5 examine the effects of electoral support for Golkar in the 2004 and 2009 legislative elections, respectively.²⁴ These measures have a number of advantages. Each

1.5 in Appendix B for details.

²¹During the Soeharto regime, the bureaucracy and the military were the two groups most closely associated with the Soeharto administration (Hadiz, 2010). See section 2.3 in this paper and section 1.1 in Appendix B for further details.

²²Both individuals contest elections running as a candidate pair. While the district mayor has most of the decision power, the vice-mayor is also an important political figure in the districts. We were able to obtain information on the background of the mayor or vice-mayor for 119 districts.

²³Most candidates in the first direct mayoral elections were supported by a coalition of parties. The dependent variable in column 2 takes value 1 if the elected mayor was supported by a coalition that included Golkar.

²⁴In these elections, the national, provincial and district legislatures are elected. The outcome of columns 3 and 5 corresponds to the results for the national legislature. The outcome in column 4 corresponds to the district legislature. However, since the elections for the three legislatures take place on the same date, there are typically very few split votes, i.e., voters vote for the same party regardless of the level of the legislature. See section 2 in Appendix B for further details.

Table 2. Effects of Exposure to Soeharto Mayors on Elite Capture

	Dependent Variables:				
	Elite Persistence: Elected Mayor Connected to Soeharto (2005-2008) (1)	Elected Mayor Supported by Golkar Coalition (2005-2008) (2)	Support for Golkar in Parliamentary Elections		
			Golkar Most Voted Party in the Village (2004) (3)	Golkar District- Level Vote Share (2004) (4)	Golkar District- Level Vote Share (2009) (5)
<i>Dep. Var. Mean</i>	0.71	0.21	0.32	21.62	15.22
Panel A. Linear Treatment Effect					
Year of Appointment	0.109** (0.044)	0.131*** (0.048)	0.072*** (0.018)	1.595** (0.665)	1.381** (0.658)
Observations	119	122	21,826	129	129
R-squared	0.218	0.084	0.196	0.509	0.306
Number of Districts	119	122	129	129	129
Panel B. Flexible Treatment Effect					
Appointment 1995	-0.048 (0.106)	0.019 (0.095)	0.072** (0.036)	-0.396 (1.702)	0.002 (1.675)
Appointment 1996	0.215* (0.126)	0.235* (0.131)	0.157*** (0.051)	2.421 (1.863)	1.580 (1.643)
Appointment 1997	0.287** (0.139)	0.376** (0.169)	0.204*** (0.057)	4.581** (2.228)	4.502** (2.214)
Observations	119	122	21,826	129	129
R-squared	0.242	0.098	0.197	0.516	0.313
Number of Districts	119	122	129	129	129

Notes: Columns 1, 2, 4 and 5 show robust standard errors in parentheses. Column 3 shows standard errors clustered at the district level in parentheses. In columns 1, 2, 4 and 5, the unit of observation is the district level, while in column 3 the unit of observation is the village level. All specifications include as controls island-group fixed effects and Golkar and PDI 1992 vote shares. Columns 1 and 2 also add an indicator for early direct elections. Column 3 also controls for a quartic in log population. *** p<0.01, ** p<0.05, *p<0.1.

election took place on the same day in all districts. Hence, this mitigates concerns that the results are driven by measuring outcomes in different points in time. The dependent variable in column 3 is obtained from the village census, while the dependent variables in columns 4 and 5 correspond to vote shares obtained from the Indonesian Electoral Commission.

The results suggest that Golkar developed an electoral advantage in the districts that had longer exposure to Soeharto mayors during the democratic transition. The evidence is consistent across time—present both in 2004 and in 2009—, and across different data sources. These results are particularly notable given that, at baseline, there were no differences in support for Golkar across districts. Furthermore, these results persist over a decade after the onset of the transition. Given that Golkar continued to be the main political vehicle of old-regime elites, the evidence is consistent with the hypothesis that districts with longer exposure of Soeharto mayors developed a number of elite capture strategies that allowed old-regime elites to have an electoral advantage at times of elections.

Third, we explore the effects on the level of political competition. The results are pre-

sented in Table 3. We obtain different measures of electoral competition from the electoral results of the first direct election of district mayors. Column 1 shows the results when the dependent variable corresponds to the number of candidates contesting the elections. Every additional year of exposure of Soeharto mayors decreases the number of candidates by 0.28. Panel B shows that this effect is particularly strong for districts that had the longest exposure to Soeharto mayors: districts where the Soeharto mayor was appointed in 1997 have 1.4 fewer candidate contesting the elections. Columns 2 and 3 explore the effects on number of independent candidates and share of independent candidates, respectively. Independent candidates are not affiliated to a specific party, contest elections with local platforms and are perceived as being independent of party elites. The results suggest that exposure to Soeharto mayors leads to fewer independent candidates contesting these elections. Panel B indicates that these effects are negative and increasing in magnitude on the degree of exposure to Soeharto mayors during the transition. Column 4 explores the effect on the Herfindahl Index of political competition.²⁵ While the effects are small and statistically insignificant the point estimate of the districts with the longest exposure is negative.²⁶

Column 5 explores the extent to which incumbent mayors lose reelection.²⁷ We observe that districts with longer exposure to Soeharto mayors during the transition exhibit a greater incumbency advantage. This result is particularly notable, given the evidence of worse governance outcomes and the deterioration in public good provision that we document for those districts. Finally, in column 6 we report the z-score for the different measures of political competition. Panel A suggests that every additional year of exposure to Soeharto mayors decreases the index of political competition by 0.2 standard deviations.

In section 2.3 of Appendix A, we further investigate the results on incumbency advantage. We regress an indicator for whether the incumbent mayor is reelected, on our proxy of exposure to Soeharto mayors during the transition, and its interaction with a measure of poor performance in public good provision. We find that, in districts with no exposure to Soeharto mayors during the transition, poor performance is associated with lower reelection probabilities. This result is expected in the presence of political accountability. However, the interaction term is positive, suggesting that exposure to Soeharto mayors reduces the

²⁵This index is defined as 1 minus the sum of squares of the vote shares of each candidate. If candidate i obtains vote share s_i , the Herfindahl Index will be computed as $1 - \sum_i s_i^2$. If only one candidate runs for elections and obtains a 100% vote share, the index would take value 0. The index is increasing in the degree of political competition among candidates.

²⁶Note that we do not find evidence that exposure to Soeharto mayors affects how divided the opposition was. We examine this empirically by constructing a Herfindahl Index of non-Golkar candidates. Hence, it is unlikely that incumbent mayors promoted the entry of candidates as a strategy to divide the electoral support of opposition parties. The results are available upon request.

²⁷In particular, the dependent variable takes value 1 for districts where neither the newly elected mayor nor the vice-mayor served as mayors or vice-mayors in the previous term.

Table 3. Effects of Exposure to Soeharto Mayors on Political Competition

	Dependent Variables:					
	Number of Candidates	Number of Independent Candidates	Share of Independent Candidates	Herfindahl Index	Incumbent Not Reelected	Z-Score col 1-5
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Mean Dep. Var.</i>	3.85	0.13	0.02	0.62	0.40	0.00
Panel A. Linear Treatment Effect						
Year of Appointment	-0.282* (0.143)	-0.153** (0.068)	-0.029*** (0.011)	-0.000 (0.013)	-0.096* (0.053)	-0.200** (0.081)
Observations	129	129	129	126	129	126
R-squared	0.193	0.247	0.238	0.207	0.124	0.272
Panel B. Flexible Treatment Effect						
Appointment 1995	-0.166 (0.271)	-0.188 (0.129)	-0.033 (0.022)	-0.011 (0.028)	-0.035 (0.122)	-0.210 (0.157)
Appointment 1996	0.041 (0.358)	-0.130 (0.151)	-0.040* (0.022)	0.034 (0.035)	-0.129 (0.142)	-0.142 (0.183)
Appointment 1997	-1.388*** (0.528)	-0.639*** (0.240)	-0.104*** (0.039)	-0.041 (0.046)	-0.329* (0.181)	-0.875*** (0.286)
Observations	129	129	129	126	129	126
R-squared	0.238	0.275	0.248	0.225	0.128	0.303

Notes: Robust standard errors in parentheses. The unit of observation is the district level. All specifications include as controls island-group fixed effects, Golkar and PDI 1992 vote shares, and an indicator for early direct elections. *** p<0.01, ** p<0.05, *p<0.1.

strength of this accountability relationship and allows some mayors to be reelected despite their poor performance. The results are presented in Appendix-A Table 5.

The coexistence of higher electoral support for old-regime mayors and poor performance in terms of public good provision, is consistent with the presence of elite capture. Mayors linked to the old-regime elite could obtain electoral support through vote buying and voter intimidation strategies. Furthermore, in the absence of voting based on performance, incumbent mayors have weak incentives to exert effort to deliver public goods. This in turn, can explain the poor governance outcomes observed in the medium-run.

The conceptual framework, presented in section 3, provides a plausible explanation for the presence of higher levels elite capture in districts that had longer exposure to Soeharto mayors: in those districts, Soeharto mayors had more time to adjust to the new political scenario after the fall of Soeharto. They used this time to develop and pursue strategies that would promote the old-regime elites' continued influence and access to power.

While there could be alternative explanations for each piece of evidence when considered in isolation, we believe that the presence of elite capture is the most convincing explanation for the results as a whole.²⁸ Furthermore, the fact that appointment timing is consistently

²⁸For instance, an alternative explanation for the higher persistence of old-regime mayors in districts with

associated with outcomes that proxy for elite capture, and the fact that there were no differences across these districts at baseline, is supportive of the hypothesis that differences in the time horizon of Soeharto mayors during the transition generated different levels of investment in elite capture that persisted over time.

6 Robustness Checks

Section 3 of Appendix B provides several robustness checks and tests for alternative explanations. In this section we summarize the most important ones.

First, we present a detailed description of the unexpected nature of the fall of the Soeharto regime. This is important because if the end of the regime had been foreseen, the central government may have changed the pattern of appointments of district mayors. We provide empirical evidence that mayors appointed in the last years of the Soeharto regime did not differ on observable characteristics. We also show that our results are robust to dropping districts with appointments in 1997. Furthermore, we document that the fall of the Soeharto regime was unrelated to district-level political dynamics.

Second, we provide evidence that our results cannot be explained by the timing of subsequent reforms or by the characteristics of subsequent elections. Our results are robust to controlling for economic and political conditions at the time of appointment and of subsequent elections for mayors. Our results are also robust to controlling for the timing of the introduction of direct elections and for the years of experience of subsequent mayors.

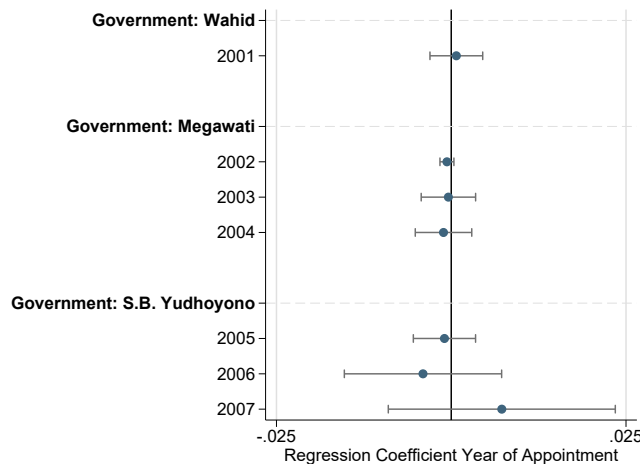
Third, we investigate the possibility that the transitional government might have punished districts that had longer exposure to Soeharto mayors during the transition because they were politically opposed to them. This would be specially problematic for our results on public good provision, since we find lower provision of public goods in districts with longer exposure to Soeharto mayors. We provide several pieces of evidence that are at odds with this alternative explanation. Using data on district government revenues of different years, we show that districts with longer exposure to Soeharto mayors did not receive fewer transfers from the central government. This is the case even for Special Earmarked Transfers—also known as DAK—, which are allocated upon the discretion of the central government. Figure 3 summarizes these results by plotting the coefficient on year of appointment of the Soeharto mayor when the dependent variable is the amount of DAK transfers per capita received by

later appointments, could be that those Soeharto mayors had more time to get familiar with the new *de jure* institutions and used this time to cultivate good reputation. However, the evidence on worse public good provision and the weakening of the accountability relationship seems hard to reconcile with efforts to build a good reputation. A more plausible explanation for both sets of results is that Soeharto mayors had more time to invest in elite capture strategies. This explanation is also consistent with the vast literature in Indonesian politics. See section 3 in Appendix B for further discussion and robustness checks.

each district—i.e., we plot the α_1 coefficient and the 90% confidence interval corresponding to econometric specification (1). The results indicate that the central government did not punish districts with longer exposure to Soeharto mayors, even with fully discretionary transfers. The figure also indicates the central government administrations in office in each year. The results are similar across the different administrations.

In addition to this, we implement a robustness check where we explicitly control for central government transfers in our main specification. All our results are fully robust to these additional controls. We also examine whether the central government differentially allocated federal programs across districts by exposure to Soeharto mayors. We show that the main federal programs—provision of health cards, unconditional cash transfers, and subsidized rice—were not differentially allocated across districts.

Figure 3. Effects on Special Earmarked Grant (DAK)



Notes: Point estimates and 90% confidence intervals shown in the figure.

Fourth, we document that our results are similar when using as regressor the year of the end of the term of the Soeharto mayor, instead of the year of appointment. In particular, we implement an instrumental variable strategy where the appointment timing is used as an instrument for the ending timing. The instrumental variable estimates are highly significant and slightly larger in magnitude.

Finally, we conduct a range of additional robustness checks: we provide a number of analyses that suggests that restricting the sample to districts that did not split does not lead to biased estimates. We also show that our electoral results are not driven by measuring outcomes with different lags since the Soeharto mayor steps down.

7 Discussion

In this paper, we provide evidence that districts that had longer exposure to Soeharto mayors during the democratic transition exhibit worse governance outcomes more than a decade after their appointment. In particular, we find that those districts exhibit worse public good provision and weaker protection of property rights.

We provide a conceptual framework that provides a plausible explanation for these results: the Soeharto mayors that, for exogenous reasons, stayed for longer in office during the democratic transition had more time to adjust to the new political scenario that emerged after the fall of Soeharto. As a result, they invested more in *de facto* power, which led to higher levels of elite capture in the medium run.

We provide additional evidence consistent with this mechanism. We show that there is a greater persistence of Soeharto-elites in power in those districts that had longer exposure to Soeharto mayors during the transition. Those districts also exhibit greater support for Soeharto's party and lower levels of political competition. Furthermore, we provide suggestive evidence that those districts have weaker political accountability: voters are less likely to punish incumbent mayors electorally for poor performance. The higher prevalence of elite capture and weaker accountability can, in turn, explain the deficient levels of public good provision.

This paper makes two main contributions to the literature. First, it exploits a particular feature of the Indonesian democratic transition that generated exogenous variation in the ability of elites to engage in elite capture strategies across the different districts. We provide several pieces of evidence that suggest that the prevalence of elite capture one decade after the transition was higher in those districts where elites had more opportunities to invest in elite capture. Therefore, the paper provides empirical evidence that the incentives and opportunities of elites to invest in *de facto* power are a fundamental determinant of the persistence of elite across different political regimes.

Second, this paper provides empirical evidence that the way in which a democratic transition unfolds has important effects on the quality of local governance in the long run. In particular, the presence of agents of the old regime during the democratic transition, can facilitate elite capture and, hence, can have a negative impact on the quality of local democracy. While an important literature in political science has argued that slow transitions towards democracy are more likely to be successful—i.e., less likely to suffer from authoritarian reversals—, this paper presents evidence that, slow democratic transitions can have important costs, as old-regime elites find it easier to capture the new democracy. Expediting the process of leader turnover at the local level by accountable leaders, or imposing additional checks and balances at the local level, might be beneficial measures for new democracies.

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