

Abstract

Political and Social Roots of Economic Vices and Virtues: Evidence from Mexico

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This thesis consists of three essays on the understanding of political, social and industrial organization as roots of economic vices such as corruption and virtues such as social capital formation.

The first essay is “The Organization of Corruption”. We study how corruption between the State and the private sector is organized. Exploiting differences in the political and industrial organization across states in Mexico, we explore how party permanency and industry structure determine the extent of corruption. Using micro-level data, we find that the political clout affects corruption in a non-linear manner. Corruption is higher for high and low levels of party permanency, and lower for intermediate levels. We also find that firms endowed with larger rents are more likely to corrupt officials in exchange for economic shelter, except when permanency seems unlikely.

The second essay is “Social Capital as Collateral in Microfinance”. I explore the role of social capital as a form of collateral in microfinance programs, exploiting differences in levels of social capital across communities in Mexico. Social capital seems to serve as a form of collateral, as individuals in communities with higher levels of social capital are able to access larger loans, *ceteris paribus*. Clients with stronger direct ties to their peers also seem to have a higher borrowing capacity. Finally, social capital has a positive impact on clients’ access to alternative sources of credit, and on their access to information on credit opportunities.

The third essay is “Social Ties and the Limits of Mutual Help in Microfinance”. I look at the role of social ties in determining dropout rates from microfinance programs. Mutual help imposed by joint liability is especially taxing on safer borrowers, increasing their likelihood of dropping out. I test the hypothesis that the sustainability of mutual help arrangements in the face of risk heterogeneity depends on the possibility of transfers between clients, which is facilitated by social ties. I find that strength-of-ties reduces the likelihood of dropping out, and increases the likelihood of peers helping each other. Relatively safer clients and clients with better outside options drop out more often, but the strength of social ties mitigates this effect, increasing the degree of heterogeneity that safer clients tolerate.

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Executive Summary

This thesis consists of three essays on the understanding of political, social and industrial organization as roots of economic vices such as corruption and virtues such as social capital formation and entrepreneurship.

Chapter I consists of a general introduction to the topic of political and social arrangement that influence economic outcomes. This chapter outlines the concepts that will be explored in detail in the dissertation, such as political organization, corruption, social networks, entrepreneurship and microfinance.

Chapter II includes the first essay of the dissertation: “The Organization of Corruption”. This essay was co-authored by Mario Gamboa-Cavazos. We study how corruption between the State and the private sector is organized. Exploiting differences in the political and industrial organization across states in Mexico, we explore how party permanency and industry structure determine the extent of corruption. Using micro-level data, we find that the political clout affects corruption in a non-linear manner. Corruption is higher for high and low levels of party permanency, and lower for intermediate levels. We also find that firms endowed with larger rents are more likely to corrupt officials in exchange for economic shelter, except when permanency seems unlikely.

Chapter 3 is the second essay of the dissertation: “Social Capital as Collateral in Microfinance”. I explore the role of social capital as a form of collateral in microfinance programs, exploiting differences in levels of social capital across communities in Mexico. Social capital seems to serve as a form of collateral, as individuals in communities with higher levels of social capital are able to access larger loans, *ceteris paribus*. Clients with stronger direct ties to their peers also seem to have a higher borrowing capacity. Finally, social capital has a positive impact on clients’ access to alternative sources of credit, and on their access to information on credit opportunities.

Chapter 4 is the third essay of the dissertation: “Social Ties and the Limits of Mutual Help in Microfinance”. I look at the role of social ties in determining dropout rates from microfinance programs. Mutual help imposed by joint liability is especially taxing on safer borrowers, increasing their likelihood of dropping out. I test the hypothesis that the sustainability of mutual help arrangements in the face of risk heterogeneity depends on the possibility of transfers between clients, which is facilitated by social ties. I find that strength-of-ties reduces the likelihood of dropping out, and increases the likelihood of peers

helping each other. Relatively safer clients and clients with better outside options drop out more often, but the strength of social ties mitigates this effect, increasing the degree of heterogeneity that safer clients tolerate.

Chapter 5 contains final remarks of the project and ideas for future research.