

Dictatorship

To sum up, for the Fascist everything is within the state and there exists nothing, human or spiritual, or even less has value, outside of the state. In this sense Fascism is totalitarian and the Fascist state interprets, develops and multiplies the whole life of the people as a synthesis and unity of each value.

Benito Mussolini

The postulate of *methodological individualism* underlies all public choice analysis. In trying to explain governmental actions, we begin by analyzing the behavior of the individuals who make up the government. In a democracy these are the voters, their elected representatives, and appointed bureaucrats. The postulate of methodological individualism has a normative analogue. The actions of government *ought* to correspond, in some fundamental way, to the preferences of the individuals whom these actions affect – the citizens of the state. This postulate of *normative individualism* underlies much of the normative analysis in public choice. It is quite understandable, therefore, that virtually all research in public choice has concentrated on the analysis of democratic governments, first because virtually all public choice scholars have lived in democratic countries and thus this form of political system has the most intrinsic interest for them, and second because they feel that all governmental systems ought to be organized as democracies.

If one were to categorize every government that has existed anywhere on the earth from the beginning of recorded history as either a democracy or a dictatorship, and weigh each government by its duration, one would find that democratic governments have made up only a tiny fraction of all present and past governments – a fraction that corresponds to the amount of attention public choice scholars have devoted to *nondemocratic* governments in their research. Even today, at the beginning of the third millennium, when democratic governments are more prevalent around the world than at any other time in history, they do not make up a quarter of all governments.¹ Anyone seeking to know how actual governments function in different parts of the world must take up the study of dictatorship. In the last decade or so, public choice scholars have begun to work on this challenging topic. This chapter reviews some of their efforts.

The fourth edition of *The Concise Oxford Dictionary* defines a dictator as an “Absolute ruler, usually temporary or irregular, of a State, especially one who

¹ *Freedom House* (1997) classifies only 22 percent of all countries as having the set of political freedoms and civil liberties that we associate with full-fledged democracy.

suppresses or succeeds a democratic government; [a] person with absolute authority in any sphere.” This definition aptly fits that archetype dictator, Adolph Hitler. He succeeded and suppressed a democracy, ruled with absolute authority, and, mercifully, his rule was temporary. Those who have lived under the rule of Fidel Castro or lived under Joseph Stalin might question the characterization of dictatorship as *temporary*, and neither of these rulers replaced democracies. Both did suppress whatever democratic tendencies existed in their countries, however, and both share with Hitler – and with all other dictators – the property that the authority of the dictator is to a degree *absolute*. This attribute of dictatorship suggests that the public choice analysis of dictatorship, grounded as it is on methodological individualism, might involve merely the analysis of the preferences and actions of one individual – the dictator. No dictator rules entirely alone, however. He is surrounded by a bureaucracy that must carry out his dictates, and thus confronts the same sorts of principal–agent problems that exist in all bureaucracies. And even the citizens he suppresses have options of whether to resist the government’s actions or support them, and if resistance is chosen whether it is passive or active, and so on. Thus, we shall find that despite the significant differences that exist between dictatorships and democracies, the same basic methodological approach can be applied to the analysis of each. Indeed, we shall find that several concepts analyzed in previous chapters come into play again in the analysis of dictatorship. We begin at the beginning with an account of the origins of dictatorship out of anarchy.

18.1 The origins of dictatorship

We noted in Chapter 2 that cooperative solutions to prisoners’ dilemmas and the provision of public goods might come about in small, stable communities without the erection of formal governmental institutions through the rational, self-interested behavior of individuals engaged in a series of prisoners’ dilemma supergames. Such informal mechanisms to induce efficient cooperation break down, however, as the number of players increases and their identities change. One response to such breakdowns would be for all players to come together and design a set of democratic institutions for resolving these collective action problems that will be to the mutual advantage of all players. Such a response would be in the Wicksellian tradition that underlies much of the public choice literature, and is the focal point of Chapters 25 and 26. Such *collective* responses to collective action problems fall prey to the same free-riding behavior that gives rise to the problems in the first place, however (Dixit and Olson, 2000). One might expect, therefore, that real-world solutions to collective action problems more often involve the actions of single individuals or small groups. Recognizing the potential gains from providing some public goods and rules for resolving prisoners’ dilemmas, certain entrepreneurial individuals step forward and establish the institutions for providing these goods and services.

Olson (1993, 2000) characterized the rise of dictatorships much in this way. A dictator is a wealth maximizer, who lives by transferring the wealth generated by those he rules to himself. One strategy such a wealth maximizer might follow in a world in which all individuals live in peaceful anarchy in small communities would

be to create a military force and move from one community to the next expropriating any and all wealth each community has accumulated. In such a world, however, any individual who is not part of a roving army has no incentive to accumulate wealth, since she must live in expectation that a *roving bandit* and his army will appear and rob her of her accumulated wealth. A rational, wealth-maximizing bandit will wish to give individuals incentives to create wealth, therefore, so there is more wealth for him to take away. Such incentives can be provided if the bandit takes only a part of a community's wealth, and protects its remaining wealth from other roving bandits. Thus, a roving bandit can accumulate more wealth by becoming a *stationary* bandit and providing all of the public goods and services that will induce those he robs to produce wealth, including police protection and defense against external attacks. In this way dictatorship is born.²

Both the bandit and the community he preys upon are better off if the bandit becomes stationary and cultivates and protects *his* community. Although immobility on the part of the bandit aligns his interests with those of the community, it does not bring them into perfect alignment. The community's wealth falls short of the level it would obtain with a *benevolent* dictator who maximized the wealth of the community. To see what is involved, let us deal with income flows rather than wealth stocks. The dictator provides public goods like roads and bridges, a judicial system that enforces contracts and protects property, and so forth. Thus, national income, Y , increases with the amount of public goods, G , $Y = Y(G)$, with $\partial Y/\partial G > 0$, $\partial^2 Y/\partial G^2 < 0$. To finance the provision of the public goods, the dictator levels a proportional tax, t , on income. This tax has disincentive effects on effort, and thus higher taxes lead to falling national income. The simplest way to capture this effect is to assume a constant elasticity with respect to the tax rate, η , and write realized income as $Y_r = Y(1 - \eta t)$.

The dictator's consumption, C , must also come out of the tax revenue raised, and thus $tY_r = G + C$. The dictator wishes to maximize his consumption subject to this constraint. If we use this constraint to substitute for C , the dictator can be thought of as choosing G and t so as to maximize the objective function, $O_D = tY(G)(1 - \eta t) - G$. This leads to the following two first-order conditions:

$$t \frac{dY}{dG} - 1 = 0 \quad (18.1)$$

$$Y - 2\eta t Y = 0, \quad (18.2)$$

and from these we obtain

$$\frac{dY}{dG} = \frac{1}{t} \quad (18.3)$$

$$t = \frac{1}{2\eta}. \quad (18.4)$$

Equation (18.4) defines the same optimal tax rate as obtained by Brennan and

² Volckart (2000) describes how the modern state arose in medieval Germany as an institution for providing protection and generating rents.

Buchanan (1980) in the Leviathan model, for in the present model the dictator is exploiting the population in exactly the same way as in the Leviathan model, with the exception that the money taken from the citizens goes to finance the dictator's own consumption rather than the expansion of the state.

If public goods provide no utility to the citizens of the community other than through their impact on income, the citizens would of course wish to maximize the income of the community net of the amount needed to pay for the public goods, $Y(1 - \eta t) - G$. If we maximize this societal objective function, O_S , with respect to G , we obtain

$$\frac{\partial O_S}{\partial G} = \frac{dY}{dG}(1 - \eta t) - Y\eta \frac{\partial t}{\partial G} - 1 = 0, \quad (18.5)$$

taking into account that t is a function of G through the budget constraint. The first term in (18.5), $(dY/dG)(1 - \eta t)$, is the marginal gain to the community from increasing the quantity of public goods. The second term, $Y\eta(\partial t/\partial G)$, is the marginal cost of increasing the amount of public goods owing to the fact that an increase in G requires an increase in t , and this increase reduces Y because of the disincentive effects of taxation. The third term in (18.5), -1 , captures the marginal cost of increasing G that arises because G must be financed out of Y .

Despite the simplicity of the relationships assumed, solving for an explicit value of t leads to a quite complicated expression relating t to dY/dG . Fortunately, it is apparent from the objective functions of the dictator and the community, O_D and O_S , that the quantity of the public good provided by the dictator falls below the socially optimal quantity.

$$O_D = tY(G)(1 - \eta t) - G \quad (18.6)$$

$$O_S = Y(G)(1 - \eta t) - G. \quad (18.7)$$

These two objective functions are plotted in Figure 18.1. Owing to the concavity of $Y(G)$, and the fact that $(1 - \eta t)$ falls with t , O_S is concave in G , as is O_D . Owing to the need to finance the dictator's consumption out of tax revenue, t is higher under dictatorship for any level of G (and thus $(1 - \eta t)$ is lower). This, coupled with the fact that the first term in O_D is multiplied by $t < 1$, ensures that O_D reaches a maximum before O_S does. A dictatorship supplies a smaller level of G than would be socially optimal.

18.2 The goals of dictators

18.2.1 The consumption of the dictator

The Roman emperor Nero indulged himself in every possible consumption activity; France's Louis XIV, "the Sun King," built a palace at Versailles that would have turned Nero green with envy; England's Henry VIII indulged a voracious appetite for food, drink, and wives; when Imelda Marcos, wife of the Philippines' longtime dictator, hurriedly fled the country following her husband's death, among the many possessions that she left behind were 3,000 pairs of shoes. The list of autocrats who have taxed their subjects to support extravagant and exotic lifestyles is nearly

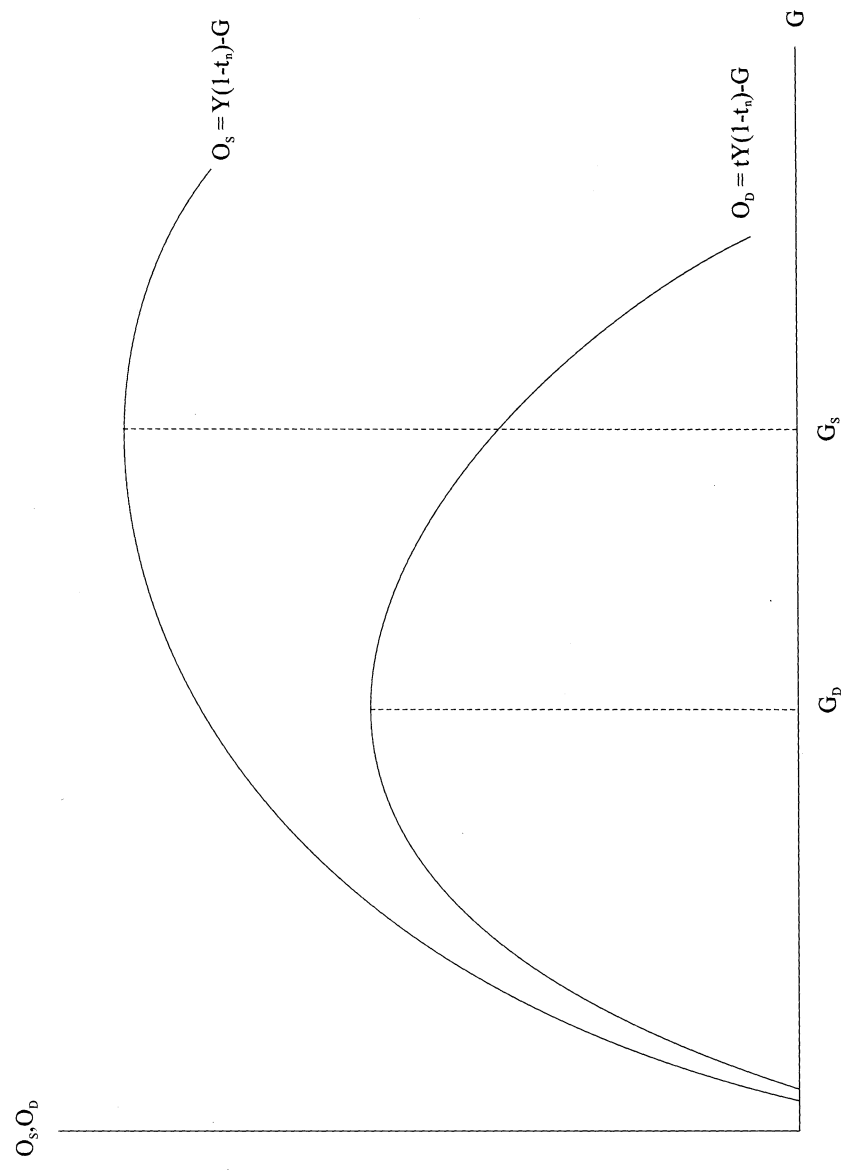


Figure 18.1. Public goods provision under dictatorship and the community optimum.

endless. The assumption of the previous section – that a dictator uses his authority to transfer income from his subjects to enhance his personal consumption – fits many a dictator.

18.2.2 *Power*

But not all dictators aspire to live “like Kings.” Adolph Hitler lived rather modestly, despite the extent of his absolute power, as did Jean Calvin in the days when he and his followers imposed a religious autocracy on the citizens of Geneva. Some dictators seem to be driven by desires that go well beyond their personal consumption. In these and analogous cases, the dictator espouses a particular ideology that he wishes to inculcate in others. The dictator seeks power to maintain and spread a particular ideology. For Hitler it was Fascism; for Calvin a particular version of Protestantism that came to be called Calvinism. The dictator possessed by such an ideology seeks that his subjects espouse and live by the principles that underlie the ideology. He seeks *power* over his subjects, power to control what they think and what they do. Jean Calvin, for example, dictated what the Genevans would wear, where they could live, and the names they could give their children (Bernholz, 1997b, pp. 289–90). The goal of Fascism was to control every aspect of the subject’s life, as the quotation from Mussolini at the beginning of this chapter reveals.³ Any system like Fascism or Calvinism that seeks total control over individuals’ lives we shall place under the category of *totalitarianism*.⁴ Our second possible goal of a dictator is power – the power to control some, in the limit all, of the actions of those he governs.

18.2.3 *Security*

Since many may find the power and/or life-style of the dictator attractive, many may wish to replace him. If the dictator wishes to continue to exercise power and enjoy the perquisites of office, he must thwart the efforts of others to replace him. Remaining in office – job security – is the third and most obvious goal that a dictator is likely to pursue, and one of the most difficult to achieve (Tullock, 1987).

In this book we have examined the behavior of three actors in a democracy – the citizen-voter, the elected politician, and the appointed bureaucrat. A dictator combines all three roles, and thus not surprisingly his motivations are a combination of the assumed motives of the three different actors in a democracy. In a dictatorship it is the preferences of the dictator, not those of the citizen, that are paramount, and thus government taxes and expenditures are oriented at least in part toward satisfying his consumption wishes, just as in a democracy government taxes and expenditures are oriented, at least in part, toward maximizing citizens’ benefits from private and public good consumption. As head of state the dictator is in command of the government bureaucracy and he must, at a minimum, exercise power over this

³ This quotation is taken from Bernholz (1991, p. 431), where a definition and discussion of the properties of totalitarian movements can be found.

⁴ For further discussion of the properties of totalitarianism and references to the non-public choice literature dealing with it, see Bernholz (1991, 1997b) and Wintrobe (1998, pp. 7–11, 58–68).

bureaucracy to achieve his other goals. If he wishes to impose a particular ideology on all his subjects, he must exercise power over all of them. Thus the dictator, like every other bureaucrat, seeks power. And finally, like every elected politician, he wants to remain in office. We now explore in some detail how the dictator goes about achieving these goals.

18.3 The functioning and survival of dictatorships

18.3.1 The utility-maximizing dictator

Given the discussion of the previous section we can now express the dictator's utility as a function of consumption, C , power, P , and security, S , $U(C, P, S)$. To obtain these objectives we shall assume, following Wintrobe (1990, 1998), that the dictator relies on two strategic instruments – the *loyalty* of his subjects and *repression* of them. Loyalty is won by making the citizens better off. We shall assume that the loyalty of the dictatorship's subjects increases with their after-tax incomes, $L = L(Y_T)$, $L' > 0$, $L'' < 0$. To repress certain actions of the citizens, the dictator must expend resources on police, jails, informers, and so on. Thus, the level of repression is a function of the amount of tax revenue devoted to it, $R = R(T_R)$, $R' > 0$, $R'' < 0$. Both the power of the dictator and his security in office can reasonably be assumed to increase with the loyalty of his subjects, and the amount of resources devoted to repression, $P = P(L, R)$, $\partial P/\partial L > 0$, $\partial^2 P/\partial L^2 < 0$, $\partial P/\partial R > 0$, $\partial^2 P/\partial R^2 < 0$; $S = S(L, R)$, $\partial S/\partial L > 0$, $\partial^2 S/\partial L^2 < 0$, $\partial S/\partial R > 0$, $\partial^2 S/\partial R^2 < 0$.

As before we assume that the dictator raises revenue through a tax on the population's income. We could assume that this income is a function of the level of public goods supplied as before, and solve for both this level and the tax rate. Since no new insights can be expected from this additional complexity, we shall simply assume that both the level of public goods, G , and gross national income, Y , are fixed. The dictator's task then reduces to that of choosing a level of consumption, C , and expenditures on repression, T_R , to maximize his utility. Given these values, the total amount to be raised in taxes is determined, and this in turn fixes the after-tax income of the population ($Y_T = Y - G - C - T_R$), and thereby the level of their loyalty. Maximizing U with respect to C and T_R yields

$$\frac{\partial U}{\partial C} = \frac{\partial U}{\partial C} - \frac{\partial U}{\partial P} \frac{\partial P}{\partial L} - \frac{\partial U}{\partial S} \frac{\partial S}{\partial L} = 0 \quad (18.8)$$

$$\frac{\partial U}{\partial T_R} = -\frac{\partial U}{\partial P} \frac{\partial P}{\partial L} + \frac{\partial U}{\partial P} \frac{\partial P}{\partial R} R' - \frac{\partial U}{\partial S} \frac{\partial S}{\partial L} + \frac{\partial U}{\partial S} \frac{\partial S}{\partial R} R' = 0. \quad (18.9)$$

Rearranging (18.8) we get

$$\frac{\partial U}{\partial C} = \frac{\partial U}{\partial P} \frac{\partial P}{\partial L} + \frac{\partial U}{\partial S} \frac{\partial S}{\partial L}. \quad (18.10)$$

The dictator chooses a level of consumption such that the marginal utility from the last tax talent⁵ devoted to his consumption just equals the marginal utility from increased power and security he would receive if that talent were not raised in taxes, and thereby increasing the loyalty of the citizenry.

Rearranging (18.9) we get

$$\left(\frac{\partial U}{\partial P} \frac{\partial P}{\partial R} + \frac{\partial U}{\partial S} \frac{\partial S}{\partial R} \right) R' = \frac{\partial U}{\partial P} \frac{\partial P}{\partial L} + \frac{\partial U}{\partial S} \frac{\partial S}{\partial L}. \quad (18.11)$$

The dictator devotes tax revenue to repression up to the point where the marginal gain from an extra talent spent on repression just equals the marginal utility from increased loyalty that this talent would produce if it were not raised in taxes.

18.3.2 Tinpots and totalitarians

Wintrobe (1990, 1998) has examined the behavior of polar cases of dictators, who are only interested in either power or in their personal consumption. Those who pursue only power he calls “totalitarians,” and those who maximize their own consumption he calls “tin pots.” Equations (18.8) and (18.10) drop out for the totalitarian, and we are left with the condition (18.11) for optimally balancing the gains from increased loyalty and repression. For the tin pot dictator, all terms involving the $\partial U/\partial P$ drop out of (18.10) and (18.11), and we are left with

$$\frac{\partial U}{\partial C} = \frac{\partial U}{\partial S} \frac{\partial S}{\partial L} \quad (18.12)$$

$$\frac{\partial S}{\partial R} R' = \frac{\partial S}{\partial L}. \quad (18.13)$$

The tin pot balances the marginal gain in utility from an increase in consumption against the marginal gain from another dollar left to the people to increase his security, and divides money between building loyalty and increasing repression so that it is equally effective on the margin at increasing security.

A threat to a dictator’s security can be interpreted as a rise in $\partial U/\partial S$. The reaction of the tin pot to such a challenge to his rule is unambiguous. He reduces consumption to increase loyalty and reequilibrate the two sides of (18.12). The reaction of the totalitarian is more ambiguous. The increase in $\partial U/\partial S$ increases both the right- and the left-hand sides of (18.11). Whether the totalitarian responds by cutting taxes to increase loyalty, or by raising them to increase repression depends on the relative effectiveness of these two strategies.

An exogenous increase in national income produces a windfall increase in the loyalty of the population, and thereby a fall in the marginal impact of reducing taxes on the population. The right-hand sides of both (18.12) and (18.13) fall and the tin pot responds by increasing taxes and spending more on repression to increase his

⁵ So as not to suggest that any particular country is a dictatorship, I have chosen this ancient unit of money for our dictatorship.

security and more on his personal consumption.⁶ An exogenous increase in national income decreases both terms on the right-hand side of (18.11) and thus leads the totalitarian to raise taxes and increase repression so as to increase both his power and his security.

18.3.3 *Selective strategies to survive*

We have until now assumed that loyalty and repression – although quite different in their causes – are similar in their effects. Both can enhance the power and security of the dictator if more resources are devoted to them. The preceding models do not specify, however, how these resources are spent; whether the actions of all citizens are monitored and repressed, or only those of some; whether the incomes of all citizens are increased to win their loyalty, or only those of some. Repressive policies – government informers, secret police, death squads – seem likely to breed distrust and fear, and in many cases to destroy the goodwill and loyalty that other government policies, like free education, subsidized housing and the arts, and sound economic policies might engender. Thus, it seems plausible that a dictator will make his investments in fostering loyalty and repression selectively. One strategy would be to cultivate the loyalty of those individuals or groups who can contribute the most to the success of the dictatorship, and repress those who are best able to harm it. Thus, the military's loyalty is enhanced by high salaries and fat budgets, while student groups and the press are censored and repressed.⁷

Up until now we have assumed that the dictator supplies public goods to increase the incomes of all members of society both to build the loyalty that contributes to the dictator's power and security, and to maximize his potential tax revenue. But a given group's loyalty can be won just as readily by *transferring* income to it from some other group as from creating income through the provision of pure public goods and sound economic policies. Thus, the rational dictator can be expected not only to transfer income from the community to himself to satisfy his personal consumption desires and his personal ambitions, but also to transfer income to segments of the community whose loyalty he most wants to strengthen. Those groups that see their incomes taken away to finance such transfers become the obvious targets of repression.

We might model this process by assuming that the success of the dictatorship, however measured, or more narrowly its security, S , is a function of the utility levels realized by each group in the country, which in turn are functions of the income earned by each member of a group and any subsidy/transfers it receives, $U_i = U_i(Y_i + s_i)$, where s_i is the subsidy to a member of group i , which if it is

⁶ Wintrobe (1998, chs. 3 and 5) assumes that loyalty is an increasing function of repression at low levels of repression. Thus, an exogenous increase in loyalty caused by an increase in income allows the tin pot to reduce repression. I prefer to keep the concepts of loyalty and repression separate. Loyalty connotes the *voluntary* allegiance of citizens to the dictator out of gratitude or trust. Repression enhances the *involuntary* support for the dictator from fear and coercion.

⁷ This reasoning explains why I separate loyalty and repression. If outlays to increase loyalty also benefited targets of repression, then it would be sensible to assume that $L = L(Y_T, R)$ with $\partial L / \partial R < 0$.

negative becomes a tax. As a group's income grows its loyalty to the regime and contribution to its success grow. Each group's contribution to the regime's success can be different, however. To simplify, we shall merely capture these differences with the group-specific parameter, α_i . In addition, the success of the dictatorship depends on the resources it devotes to repression. Once again we shall assume that the contributions to the regime's success from repression differ across groups, and simply measure these differential responses with the parameter, β_i . The security of the dictatorship can now most simply be written as additive in these two terms,

$$S = n_1[\alpha_1 U_1(Y_1 + s_1) + \beta_1 R(T_{R1})] + n_2[\alpha_2 U_2(Y_2 + s_2) + \beta_2 R(T_{R2})] \\ + \cdots + n_i[\alpha_i U_i(Y_i + s_i) + \beta_i R(T_{Ri})] + \cdots + n_m[\alpha_m U_m(Y_m + s_m) \\ + \beta_m R(T_{Rm})] \quad (18.14)$$

where T_{Ri} is the amount of tax revenue devoted to repressing group i , and n_i is its size. The dictator's task is to maximize S subject to the constraint that the total amount of positive subsidies and tax revenue devoted to repression equals the amount of tax revenue raised (negative subsidies).⁸

$$\sum_{i=1}^m n_i s_i + \sum_{i=1}^m n_i T_{Ri} = 0. \quad (18.15)$$

In addition to this budget constraint there are constraints that expenditures on repression cannot be negative, and that no tax on a group can exceed externally determined income, if $s_i < 0$, then $|-s_i| \leq Y_i$, and $T_{Ri} \geq 0$, for all i . Maximizing (18.14) with respect to the s_i and T_{Ri} subject to these constraints yields first-order conditions of the following form for all groups for which the inequality constraints are not binding:

$$\alpha_i U'_i = \alpha_j U'_j = \beta_k R' = \beta_h R'. \quad (18.16)$$

Income is redistributed across groups to equate the marginal impacts on the security of the government of increasing the income of a member of any group. Tax revenues are allocated to repressing each group to again equate the marginal impacts on security of repressing a member of any group. For groups with very low β_i s the gains from repression are so low that no funds are devoted to this activity. Groups with very low α s have all of their incomes taxed away.

In reality, a more complicated functional form linking S and the utilities of the citizenry and the gains from repressing them seems plausible. For example, the gains from repressing a given group are likely to increase with the amount of income taxed away from it, that is, β_i is a function of s_i . But we need not explore these more complicated alternatives to see that the optimal set of policies of a dictator are likely to involve the selective use of rewards and punishments.⁹ It is worth noting in this context that the task faced by the dictator of choosing tax/expenditure policies is

⁸ We ignore once again the dictator's consumption and provision of public goods.

⁹ For additional discussion of selective strategies by dictators, see Wintrobe (1998, chs. 6–8).

similar to that faced by the competing parties in a two-party electoral system under the assumptions of the probabilistic voting model (see Chapter 12). When interest groups make different contributions to the success of a party, it promises them differential benefits from governmental programs. Competition for votes between the two parties leads them to offer a set of policies that maximize some form of weighted social welfare function. The dictator does not have to compete against an organized opposition, but must live in constant fear that some general, or corporal, or alienated academician will set a train of events into motion that will result in the dictator's downfall. This uncertainty leads the dictator to maximize an objective function that is dependent on the utilities of the citizens. It differs most from that of a party in a democracy in that the weights it places on the utilities of some groups may effectively be negative.

18.3.4 *The dictator's dilemma*

Thus, we see that citizens will experience differential gains and losses from governmental policies under a dictatorship as in a democracy. Rent seeking will take place and different groups will compete for these rents. To achieve his goals, the dictator must determine who his true supporters and enemies are, whom to reward, and whom to punish, the α s and β s of the previous subsection. In a democracy this information is readily available. Interest groups offer visible support for a party in the form of votes and campaign contributions, and a politician can fairly easily determine which groups are most loyal to him – which groups deserve rewards. But in a dictatorship support for the government is much more passive. It takes the form of *not* actively opposing the government, not sabotaging its policies and starting a revolution to overthrow it, and so forth. All groups have an incentive to *fain* support for the dictatorship even if they are actively working to undermine it. The dictator faces the daunting task of determining which groups *truly* support him, which are merely pretending to do so, and which are actively but secretly plotting his overthrow.

Moreover, the incentive to conceal one's true intentions and opinions about the dictatorship increases with the level of repression and the dictator's willingness to exercise absolute power. Every citizen must wonder when she openly expresses an opinion about the dictator or his policies whether her views may be used not to improve her welfare, but to single her out for repression. Thus, the rational citizen in a dictatorship can be expected to conceal her true feelings about the dictator and his policies, and this is true from the average citizen on the street right up to the dictator's closest and most important advisors. Thus arises the dictator's dilemma.¹⁰ The more absolute his power and the more ruthless his use of repression to stay in office, the poorer his sources of information are as to how to exercise his power most effectively. Paradoxically, the *effective* power of the dictator who uses fear and repression to remain in office may actually decline as he makes more and more use of these strategies.

¹⁰ The term comes from Wintrobe (1998, pp. 20–39); see also Elster (1993, pp. 66–9).

To build support for his regime the dictator needs a way of credibly signaling to those whose loyalty he seeks to win that he will not subsequently turn upon them. Those seeking rents and other rewards from the dictator need a way of signaling their willingness to trade their loyalty for rents. Most generally, the dictator needs criteria to determine who should be rewarded and who not, and who should be the target of repression. Here ideology can play a useful role. In a theocracy, for example, citizens can be distinguished on the basis of whether they are members of the religion of the state or not. Nonmembers become the obvious targets for repression and taxation. Support for the dictator is built among members of the religion through transfers and other measures to win loyalty. The ideology of the regime identifies the likely winners and losers from governmental policy, and commits the dictator to some degree not to employ repression against members of the state religion. The existence of a state religion helps to make the dictator's promises credible. Other criteria for differentiating among the citizenry have been by economic interest (Communism) and ethnic group (Fascism, Apartheid, Nationalism).¹¹

18.3.5 *The limits of totalitarianism*

The discussion of the previous subsection reveals why few dictators have ever come close to achieving the ambitious goal set for fascism by Mussolini at the beginning of this chapter – certainly he did not realize it. One explanation is that the totalitarian is likely to lack the information needed to achieve his goals. A second reason is that he is likely to lack the necessary resources.

Returning to (18.14) we see that the dictator will want to tax some groups and transfer sources to others to win the latter's loyalty. Additional resources are needed to repress still other groups, probably including those heavily taxed. Over time the productivity of the groups targeted for heavy taxation and repression is likely to decline. To maintain tax revenues the regime must expand the list of targets for taxation and repression. As their productivity declines, the list of targeted groups must be expanded yet again, and so on. A second reason why a totalitarian regime may not be able to achieve its goal of complete ideological subjugation of the population is that it lacks the necessary economic resources.¹²

18.4 The rise and decline of dictatorships

In Section 18.1 we described how a dictatorship might arise out of a state of pure anarchy. Very often dictatorial regimes come into being following a war or revolution, or the collapse of a different form of government. The Ottomans defeated in battle and then replaced a crumbling Byzantine theocracy. Napoleon Bonaparte erected his dictatorial empire in a France torn by strife and conflict following the French Revolution. The Communist dictatorship that established and dominated the Soviet

¹¹ For further discussion, see Bernholz (1991, 1997b) and Wintrobe (1998, chs. 7 and 8).

¹² See Wintrobe (1998, chs. 3 and 5). The empirical evidence linking dictatorships and economic performance is discussed below.

Union throughout most of the twentieth century arose following a revolution that erupted in Russia during World War I. It replaced the monarchy of the Romanoffs. Hitler's Fascist dictatorship replaced a democratic system of government during the economic crisis in Germany in the 1930s. Fidel Castro led a revolutionary army that replaced an unpopular dictator in Cuba. In these and many other examples one could cite, the new regime replaces a corrupt or decaying regime at a time of great insecurity and unhappiness in the country. The new dictatorial regime thus often begins with considerable support from at least some sectors of the population. The successful dictator extends and strengthens his initial support. Rewards are meted out to build loyalty among some groups; repression is used to control the (possible) disloyalty of others. If the movement that led to the rise of the dictatorship had an ideology, the dictator may employ it to develop loyalty.

The victors in a revolutionary struggle, like the winners of any contest, are filled with joy and enthusiasm, a conviction that they and their ideology have been vindicated. This enthusiasm, bred from victory, can help to provide the energy needed to construct the many institutions that are needed to sustain the dictatorship over the long run. But with time such enthusiasm wanes, memories of victory fade, and the dictatorship goes into decline. The most recent and spectacular example of a decline and eventual collapse of a dictatorial system has been, of course, the collapse of the Communist regimes in the Soviet Union and Eastern Europe. Both Wintrobe (1998) and Olson (2000) have provided complementary explanations for this decline, focusing on the properties of the gigantic, bureaucratic systems of state planning in these countries.

In the classic depiction of a hierarchical organization, information relevant to the success of the organization (changes in the tastes of clients or customers, new technological options) is gathered at the bottom of the hierarchy and passes upward, and commands are given at the top and pass downward. Both types of information are subject to distortion and dissipation as they pass through the hierarchy. In addition to inadvertent losses of content as information passes through the hierarchy there are intentional distortions and destruction of information as members of a hierarchy opportunistically pursue their own goals. The task of each supervisor is to reduce such *control losses* so that the organization succeeds at achieving the goals laid down by the person(s) at the top.¹³

Wintrobe (1998, chs. 9 and 10), building on Breton and Wintrobe (1982), distinguishes between *vertical exchanges* in a hierarchical organization, and *horizontal exchanges*. Subordinates provide certain services for their supervisors who in turn offer them certain rewards. Trust is established between subordinates and supervisors in this way, and such vertical exchanges thereby lead to the organization's successfully satisfying its goals. The enthusiasm that characterizes the early years of a new dictatorial system combined with strong commitments to the ideology underlying the dictatorship can be expected to strengthen the levels of trust between vertically linked members of state bureaucracies, and thus to contribute to

¹³ Classic discussions of these properties of hierarchies are by Simon (1961) and Williamson (1964, 1975). See also Milgrom and Roberts (1992).

the dictatorship's efficiency. Wintrobe (ch. 9) argues that vertical trust was particularly strong in the Soviet state's bureaucracies during the first decades following the revolution, and that this helps explain the extraordinary and otherwise surprising success and apparent efficiency of Soviet central planning over much of the twentieth century.

In contrast to vertical exchanges, horizontal exchanges undermine the efficiency of hierarchical organizations. Horizontal exchanges take place between individuals at a given level of the hierarchy. Any interests that these individuals hold in common, other than the overarching goals of the organization, are likely to *conflict* with these overarching goals. For example, all scientists in a research laboratory are likely to have a common interest in expanding their freedom to define the research topics that they pursue. The success of the laboratory at answering the questions assigned to it may be undermined, however, if the research of its members ranges too far away from the assigned questions. Thus, as horizontal linkages develop in a bureaucracy its efficiency can be expected to fall. Trust relationships develop between people who occupy similar positions in the hierarchy, as they exchange favors for one another (you say that my research is good for the organization, and I'll say that yours is; you cover for me, and I'll cover for you).

Since vertical exchanges contribute to the success of the organization, they can be openly advertised and joined. Indeed, rewarding one subordinate for doing a good job is likely to have a bigger positive impact on the organization's success if her co-workers at the same level of the hierarchy are made aware of the reward than if it is kept secret. Vertical exchanges can be put in writing and easily verified. Horizontal exchanges that benefit the participants in the transaction, but damage the organization's efficiency, must be made and kept in secret. When several individuals are involved, these exchanges resemble cartel arrangements. In a market economy, horizontal cartel arrangements may need to be tacitly joined to avoid the scrutiny of the authorities charged with maintaining competition to promote the efficiency of the economy. Horizontal cartel arrangements among bureaucrats may also need to be joined tacitly to avoid the scrutiny of those standing higher in the hierarchy who stand to lose if the organization becomes less efficient.

All members of a horizontal cartel are caught in a prisoners' dilemma. The rents created by the cartel are a public good for it. All members of the cartel benefit if the collusive agreement is maintained, but each individual member can benefit still more from cheating on the cartel. In a horizontal price-fixing cartel such cheating takes the form of (usually secret) price reductions. In a horizontal cartel among bureaucrats, cheating may take the form of "blowing the whistle" on the other members, and thereby obtaining a handsome reward or promotion.

Such whistle-blowing is quite likely during the early days of a dictatorial regime, when many of its members remain "loyal to the cause" and committed to the regime's underlying ideology. As time passes, memories of the revolution fade, and ardor for its ideological principles cools. Whistle-blowing may become less prevalent. With time it is also easier to determine whom one can trust to remain loyal to the cartel, and who the likely whistle-blowers are. Thus, the horizontal exchanges and rent-seeking cartels that undermine a bureaucracy's efficiency only appear in

mature bureaucracies. Just as the institutional sclerosis and rent-seeking that produce economic decline appear only in mature democracies, where sufficient time has elapsed since the revolution or war that launched them, so too institutional sclerosis and rent-seeking within the giant bureaucracies that manage a centrally planned economy become debilitating only as the years pass following the revolution or war that launched the underlying dictatorship. Both Wintrobe and Olson “credit” Stalin for postponing the onslaught of bureaucratic sclerosis, and thus for prolonging the Soviet Union’s “economic miracle” by destroying the horizontal exchange and cartel patterns within the Soviet bureaucracies through his many and brutal purges. These purges both shuffled the potential membership of any horizontal cartel and raised the penalty on anyone for whom a whistle was blown. Bureaucratic sclerosis became inevitable once the purges ceased, and the Soviet bureaucracies were able to settle into a peaceful maturity.

18.5 Dictatorship and economic performance

Do democracies outperform dictatorships? Several writers have addressed this important question both theoretically and empirically. Unfortunately, neither literature gives an unequivocal answer. Let us begin with the theoretical approaches.

18.5.1 *The relative advantages of dictatorship and democracy*

In Section 18.1, we saw that a consumption-maximizing dictator would supply a smaller amount of public goods than would be optimal for the entire community. This result implies that in a democracy, *which makes its collective decisions using the unanimity rule*, both the level of public goods and national income will be higher than in a dictatorship in which the dictator chooses the level of public goods to maximize his personal consumption. No democracies make their collective decisions using the unanimity rule, however, and we know that in majoritarian democracies, the winning majority may act as a dictator transferring income from the minority to itself. Will its outcomes be worse or better than those under a dictatorship?

To see what is involved, let us assume as in Section 18.1 that national income is a function of the quantity of public goods supplied, and diminishes as the proportional tax on income rises, $Y = Y(G)(1 - \eta t)$, where again η is the elasticity of income with respect to the tax rate. The objective of the dictator was to maximize his consumption, which equaled total tax revenue less the amount spent on public goods,

$$O_D = tY(1 - \eta t) - G. \quad (18.17)$$

The full community, on the other hand, would wish to maximize the difference between total income and the cost of the public goods,

$$O_S = Y(1 - \eta t) - G. \quad (18.18)$$

One way to think of a majority coalition behaving is that it both selects an amount of public goods and, like the dictator, transfers some of the income from the community

to itself in the form of a subsidy, S . Tax revenues must thus cover both public goods expenditures and the subsidy,

$$tY(1 - \eta t) = G + S. \quad (18.19)$$

Let m be the fraction of the community that is in the majority coalition. Its objective is then to maximize its share of national income net of taxes plus its subsidy,

$$O_M = m(1 - t)Y(1 - \eta t) + S. \quad (18.20)$$

Using (18.19) to replace S in (18.20) we obtain

$$O_M = m(1 - t)Y(1 - \eta t) + tY(1 - \eta t) - G. \quad (18.21)$$

With $m = 0$, (18.21) reduces to (18.17) and we have the objective function of the consumption-maximizing dictator. With $m = 1$, (18.21) reduces to (18.18) and we have the objective function of the community, which maximizes income net of public goods costs. Thus the objective function for a redistributive majority coalition falls between that of a pure dictatorship and a community functioning under the unanimity rule, and its chosen tax rates and public good quantities will also fall between these two values.¹⁴

Although it is instructive to think of a majority coalition merely paying itself a subsidy out of general tax revenue, given the disincentive effects of taxation a majority coalition would not both tax itself and offer itself a subsidy. An alternative strategy would be to tax itself, and the minority, at different rates. If we let t_m be the tax rate for the majority coalition, and t_n be the tax rate for the minority coalition, the objective function of the majority coalition becomes merely the maximization of its net of tax income, subject to the budget constraint:

$$O_M = m(1 - t_m)Y(1 - \eta t_m) + \lambda[G - mt_m Y(1 - \eta t_m) - (1 - m)t_n Y(1 - \eta t_n)]. \quad (18.22)$$

Despite the simplicity of this formulation, the maximization of (18.22) does not yield values for t_m and dY/dG that allow easy, intuitive interpretations. It does for t_n , however. The tax rate imposed on the minority by the majority is exactly the same as that imposed on the community by the consumption-maximizing dictator.¹⁵ Thus, although a majority coalition in a democracy can be expected to exploit the minority in much the same way as a dictator would, its choices with respect to itself will be less exploitative, and the outcomes for a majoritarian democracy will come closer to those that maximize the community's welfare than for a dictatorship.

These arguments abstract from the problems dictators might have keeping their jobs, and their possible interest in power and various ideological goals that may lower the community's welfare. Overland, Simons, and Spagat (2000) have recently explored the implications of introducing uncertainty over survival into a model of

¹⁴ For further discussion using a more elaborate model, see McGuire and Olson (1996).

¹⁵ Maximizing (18.22) with respect to t_n yields as a first-order condition

$$\lambda[-(1 - m)Y(1 - 2\eta t_n)] = 0.$$

Since $\lambda > 0$, the expression within the square brackets must equal zero, implying that $t_n = 1/2\eta$.

a consumption-maximizing dictator. They assume that the probability of a dictator being overthrown falls as the prosperity of the community increases. If the initial conditions – in their model the initial capital stock – are favorable enough to produce a standard of living above a critical threshold, the dictatorship has a sufficiently high probability of surviving that the dictator chooses policies to promote growth, since he knows that it is highly likely that he will be around to skim off his share of the national income. If the initial conditions are unfavorable, however, the probability of the dictatorship surviving is low and the dictator plunders the economy. Overland, Simons, and Spagat thus predict that dictatorships fall into two categories: one performing very well in terms of economic growth, the other performing disastrously.

In a quite different model, Robinson (2000) has shown that dictators may choose *not* to invest in public goods like education that would improve the welfare of the community, because a well-educated society is more capable of overthrowing the dictator.

These results make it difficult to predict whether dictatorships should perform well or poorly in terms of economic growth. And the same can of course be said for democracies, *once* we allow for various forms of rent seeking, cycling, budget-maximizing bureaucracies, and the like.¹⁶ As is often the case, the issue must be settled empirically.

18.5.2 *The relative economic performance of dictatorships and democracies*

Levels of income or the growth of income per capita are often used as performance measures in international comparisons, and essentially all the comparative literature on democracy and dictatorship use these sorts of measures. These abstract, of course, from many of the attributes of democracy that most citizens would hold dear. For example, one might be much happier living in a country in which one is free to read whatever one chooses, than in one where this freedom is absent, even if income levels and growth rates in the two countries were the same. Nevertheless, it is interesting to ask whether these standard measures of economic performance are systematically related to the degree of freedom and democracy. A quite extensive literature has attempted to offer an answer.

Although there are problems in defining and measuring economic performance properly, these pale into insignificance alongside the problem of defining and measuring freedom and democracy. The standard approach now is to combine various indexes of civil, economic, and political freedoms into one or more grand indexes. In some cases, for example Scully and Slottje (1991) and de Haan and Siermann (1998), the emphasis is on *economic* freedoms; indexes of “freedom of the foreign exchange regime,” “freedom from work permits,” and the like are combined. In other studies, the focus is more on *democratic* freedoms.

¹⁶ For further discussion of the different theoretical arguments and references to the literature, see Przeworski and Limongi (1993).

Most reassuringly for advocates of free market and capitalist systems, measures of economic freedom do seem to correlate positively with per capita growth rates in income. De Haan and Siermann (1998), for example, found that the coefficients on nine different measures of economic freedom all had the correct sign in regressions to explain per capita income growth, and at least some of these were statistically significant and passed a set of sensitivity tests. In a follow-up study, de Haan and Sturm (2000) report, however, that only *increases* in economic freedom have a significant impact on economic growth, not the levels.¹⁷ Wu and Davis (1999), on the other hand, also found a positive relationship between growth of income and a composite index of economic freedom, and Knack and Keefer (1995) found that the protection of property rights was positively associated with economic performance across all forms of political systems.

Less reassuring for advocates of democracy has been the pattern of relationships between democratic/political freedoms and income growth rates. Although some studies have established a significant positive link between measures of political freedom and growth (e.g., Pourgerami, 1992), others have found that authoritarian regimes have better growth records (Adelman and Morris, 1973; Barro, 1996). Przeworski and Limongi (1993) reviewed 21 empirical studies that tested for a link between type of political system and economic growth and were unable to determine any consistent pattern in the results. One reason for these ambiguous findings is apparent from the discussion of the decline of bureaucratically run, centrally planned economies in the previous section. In Chapter 22 we shall discuss hypotheses and evidence that suggest that *democracies* can also go into economic decline. Both may go through “life cycles,” so that their economic growth rates vary significantly depending on the age of the regime. Proper testing for the effects of democracy and dictatorship must differentiate between young and mature variants of these two systems.

A second difficulty that arises when measuring the impact of democracy on economic performance is that neither democracy nor dictatorship come in a single form. Among the European, Anglo-Saxon, and Latin American countries that fall fairly clearly under the heading of democracy, there are potentially important differences in electoral rules (two-party, multiparty, presidential), in the use of institutions of direct democracy like the referendum, federalist structures, and the like. Within the set of dictatorships, there are also important differences. Wintrobe (1998), for example, first distinguishes among totalitarian, tinpot, tyrannical, and timocratic dictatorships (chs. 1–5). Later he draws distinctions along economic lines among kleptocratic, capitalist authoritarian, command economy, and shadow economy dictatorial systems (chs. 6–10). Not only is there no reason to expect all of these different sorts of dictatorships to exhibit similar levels of economic performance, Wintrobe’s analysis demonstrates why one should definitely expect that at least some of them will perform quite differently from one another. Indeed, the likelihood that different dictators would choose policies with dramatically different economic consequences for their subjects was apparent in the simple models analyzed in Sections 18.1 and 18.2.

¹⁷ Berggren (1999) finds that increases in economic freedoms reduce income inequality.

The main empirical implication of the model of Overland, Simons, and Spagat (2000) described earlier is that there should be a larger *variance* in the growth rates of dictatorships than there is for democracies. They present evidence that this is the case.¹⁸

18.5.2.1 *A direct test of Wintrobe's model of dictatorship.* Schnytzer and Šušteršič (1997) use membership in the Communist Party in Yugoslavia over the period of 1953–88 as an index of support for the Communist regime, support which contributed to its stability over this period. Between 1953 and 1988 membership in Yugoslavia's Communist Party varied both over time and across the several republics that made up the Yugoslav Republic. One possible explanation for this variability is that membership in the party increases as the popularity of the party increases. This hypothesis would lead us to expect, in line with the political business cycle literature reviewed in Chapter 19, that membership would be inversely correlated with macroeconomic variables like unemployment and inflation rates. Membership in the Communist Party could, on the other hand, measure the degree of loyalty to the regime resulting from “political exchanges” between the government and the citizens as Wintrobe hypothesizes. Schnytzer and Šušteršič (1997, p. 121) “assume that jobs, or the likelihood of obtaining promotion, were a very important source of rents provided by the Party to its members. The relative value of this rent increased with unemployment. Therefore, we should expect LCY [League of Communists of Yugoslavia] membership to be positively related to unemployment” – exactly the opposite prediction from the political-business-cycle-popularity hypothesis. For analogous reasons they expect LCY membership to be inversely correlated with the level of real wages. Time series regressions yielded the strongest support for these predictions in the two provinces with largely Serbian populations, where the Communist government was most firmly established – Serbia and Montenegro. Little empirical support for the political exchange hypothesis was found in the non-Serb republics of Slovenia and Macedonia, where the Communist government was weakest. Empirical support for the political exchange hypothesis fell in between these two extremes in Bosnia/Herzegovina and Croatia, which have mixed Serbian populations and had Communist regimes with strengths that also fell between those of the four other republics. The findings of Schnytzer and Šušteršič are consistent with the hypothesis that governments in Serbia and Montenegro, and to a lesser extent in Bosnia/Herzegovina and Croatia, reinforced and sustained a mixed ideology of Serb-nationalism and Communism through political exchange as implied by Wintrobe's model of dictatorship.

18.6 Conclusions

The word “democracy” conjures up the the image of the sovereignty of the citizens. The citizens decide the policies of the state, and only their preferences count. In

¹⁸ For further discussion of the conceptual and econometric problems in trying to *explain* differences in economic growth rates in terms of whether countries are classified as democracies or dictatorships, see Przeworski and Limongi (1993).

contrast, the word “dictatorship” connotes the antithesis of democracy. Only the dictator’s preferences count. The collective choices of the citizens in a *direct* democracy arguably come reasonably close to meeting the ideal of citizens’ sovereignty. Even here one must worry about the problem of rational ignorance on the part of voters, and cycling under some choices of voting rules. But these aside, one expects a fair correspondence between what the citizens want from the state and what they get.

This correspondence is expected to be decidedly weaker when an assembly of elected representatives of the citizens decides what governmental policy ought to be, and appointed bureaucrats implement it. This latter institutional structure introduces problems of aggregating citizen preferences to select representatives, principal–agent problems between the citizens and their representatives, between their representatives and the bureaucrats whom they appoint to carry out their policies, and principal–agent problems across the hierarchical levels of the governmental bureaucracies. Nevertheless, there still is a widespread belief that representative democracies – despite all of their faults – do a much better job of satisfying the preferences of their citizens than do dictatorships, since in representative democracies the citizen–principals continue to exercise *some* control over their politician-bureaucrat agents, while in a dictatorship, this control is absent.

The literature reviewed in this chapter casts doubts upon the validity of this stark contrast. The dictator faces principal–agent problems in getting the bureaucrats, whom he nominally controls, to advance the interests of the dictator and not their own. This forces the dictator to employ rewards and sanctions to induce bureaucratic compliance, in much the same way as in a democracy. The citizens can make the dictator feel more or less secure by granting or withholding their loyalty and support. This forces the dictator to weigh the impacts of his chosen policies on the welfare of the citizenry, in much the same way as elected party officials must weigh the impacts of their policies on the welfare of voters. Rent seeking can be expected in both kinds of political systems.

These similarities help explain why it has been difficult to identify empirically differences in performance indicators, like growth rates in income per capita, between dictatorships and democracies.

These observations do not imply, of course, that there are no significant differences between democracies and dictatorships. The scope for repressive policies to increase power and security of office is much greater under most dictatorships than in most democracies. The existence of a constitutionally defined set of individual rights and liberties, and an independent judiciary adds further protections for citizens in *some* democracies that are absent in most dictatorships. The greatest advantage of democracy over dictatorship may not be that democracies outperform dictatorships on average, but that democracies seldom sink to the depth of misery that one too often observes under dictators.

Bibliographical notes

The seminal contribution to the public choice literature on dictatorship was by Tullock (1987). Kurrild-Klitgaard (2000) has recently presented evidence in support

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of one of Tullock's key predictions about succession in dictatorships. Between 935 and 1849 there was considerably more stability when the monarch's successor was selected using hereditary rules that clearly identified the next monarch, than when there was ambiguity over his identity.