

Economic Origins of Dictatorship and Democracy

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Data and Facts

- What do we see in the world? The problem of measuring institutions quality.
- Continuous vs Dichotomous views on democracy and non-democracy empirical analysis.
 - Dichotomous: Przeworski et al. (2000).
 - Continuous: Freedom House index (postwar era) and Polity index (from 1800s).
- Problems: using ordinal indexes as cardinal.

Data and Facts

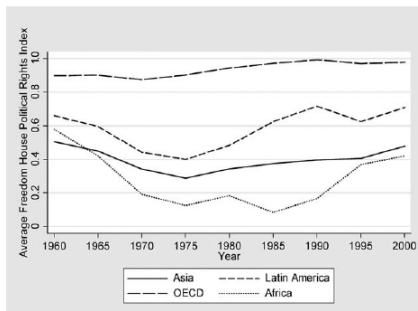


Figure 3.1. Evolution of Democracy 1960–2000.

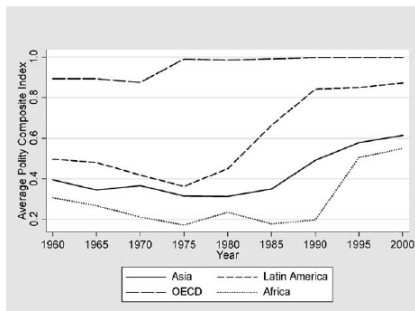


Figure 3.2. Evolution of Democracy 1960–2000.

Data and Facts

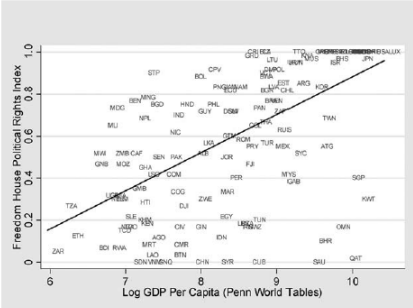


Figure 3.5. Democracy and Income 1990s.

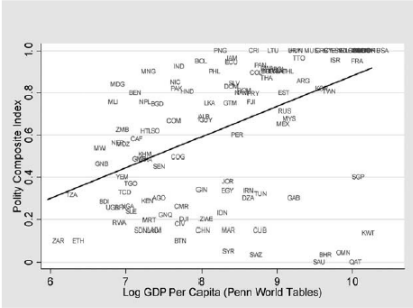


Figure 3.6. Democracy and Income 1990s.

Data and Facts

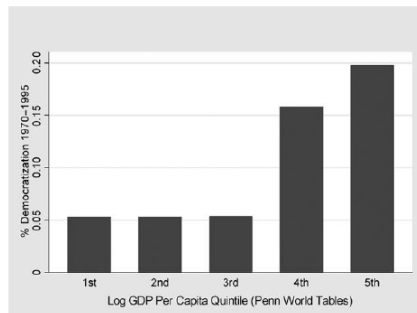


Figure 3.9. Transitions to Democracy and Income 1970-1995.

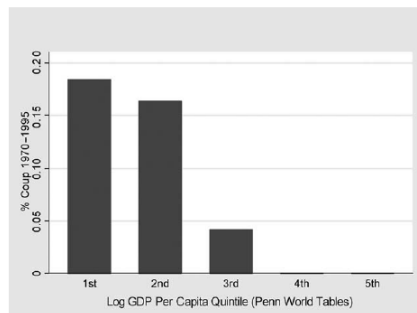


Figure 3.10. Transitions to Nondemocracy and Income 1970-1995.

Data and Facts

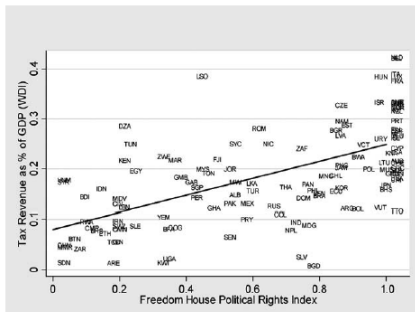


Figure 3.17. Democracy and Tax Revenue 1990s.

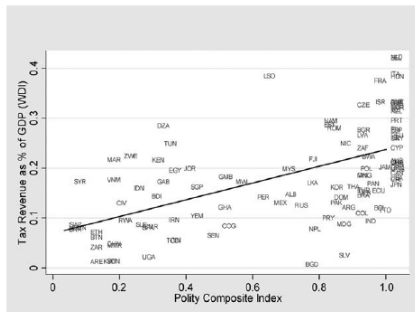


Figure 3.18. Democracy and Tax Revenue 1990s.

Literature review

- Lipset (1959) - Modernization Theory: \uparrow income \rightarrow \uparrow democracy.
Classification by Moore (1966): Democracy, Communism and Fascism.
- O'Donnell and Schmitter (1986): Political transitions (inter-group interactions).
- Linz and Stepan (1996): Democracy consolidation (type of democracy depends on initial conditions).
- Huntington (1981).
- Dahl (1971): View closer to authors.
- General survey of literature agrees that the general propositions about non-democracies, transitions and democracies are... no prepositions! There is no consensus.

The basics

- Major contributions: clear assumptions, generality (look to the big picture), economic approach (i.e., agents have well defined preferences), show explicitly the trade-offs, the existence of concessions and repressions.
- First question: Why do we have different situations in UK, Singapore, South Africa and Argentina? The stories behind.
- The difference between Democracy and Dictatorship: political equality.
- Distribution creates political conflict between poor and rich about taxes.
- Political power: capacity of a group to obtain its favorite policies against the resistance of other groups.

The basics

- De jure and de facto political power.
- Institutions matter: they are durable and regulate the future allocation of political power.
- Revolutions are very costly for elites: they may prefer to transfer political power or repress.
- Citizens need to solve collective-action problem, i.e., if they have the facto political power today... they may not have it tomorrow.
- The importance of credibility: elites announcing transfers of the allocation of political power may not be credible → need permanent commitment, i.e., democratization.

The basics

political power_t \implies political institutions_t \implies political institutions_{t+1} \implies de jure political power_{t+1}

temporary political power for the citizens from threat of revolution or social unrest \implies elites need to commit to future policies \implies introduction of democracy \implies more political power for the citizens in the future

The static model

- Topics excluded: Middle class as buffer, effects of Globalization, dynamic model, political identities (race, religion...).

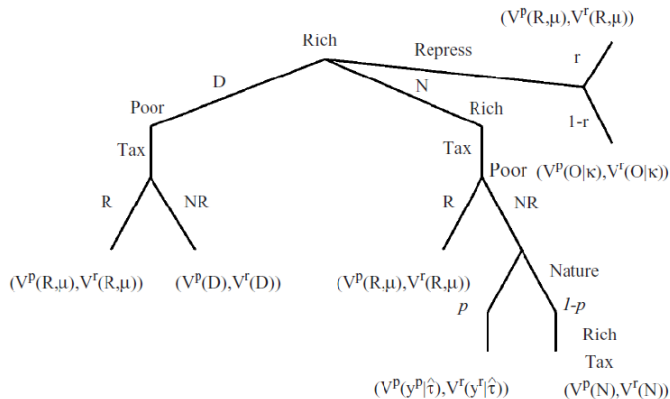


Figure 6.7. Democratization or Revolution.

The underlying process

- Start with ND: elites (rich) choose the policy they like (taxes) (if unconstrained).
- But they can be threatened by revolutions (transitory threat). Three options:
 - Revolution (costly).
 - Commitment to transfer of political power (democratization).
 - Repression (costly and risky even if it works (with probability $1-r$), if it fails (with probability r) \rightarrow revolution).
- They may also promise higher taxes, and with probability $1-p$ they can change their promise (not fully credible)... but poor people will take this into account.

The static model

- Which decision is taken depends on three key values: cost of revolution (μ), cost of repression (κ) and inequality of the society (θ).

Explicit model

- Three interesting thresholds for the decision that is taken:
 - Indifference between revolution and non-democracy with commitment: μ^* .
 - Indifference between repression and non-democracy with commitment: $\hat{\kappa}(r)$.
 - Indifference between repression and democracy: $\tilde{\kappa}(r)$.
- If $\theta \leq \mu$, then status quo prevails. If not, then:
 - If $\mu \geq \mu^*$ and $\kappa \geq \hat{\kappa}(r)$, then repression is costly and elites redistribute to avoid revolution.
 - If $\mu < \mu^*$ and $\kappa < \hat{\kappa}(r)$ or $\kappa \geq \hat{\kappa}(r)$ and the poor prefer strictly revolution to democracy, or if $\mu \geq \mu^*$ and $\kappa < \hat{\kappa}(r)$, then the elites use repression, and with probability r it fails and there is a revolution.
 - If $\mu < \mu^*$, the poor prefer weakly democracy to revolution and $\kappa \geq \hat{\kappa}(r)$, then concessions cannot avoid a revolution, repression is costly and elites opt to democratize.

The static model

- Since this is a static model, we cannot see the dynamic process that would lead to the cases of Argentina and UK, but the cases of South Africa and Singapore can be explained (statically).
- Depending on the characteristics of each country the elites may take a different decision.
- Democratization is more likely to occur with political crisis (temporary change in de facto political power).
- Profile of elites (wealth composition, i.e., landowners vs industrialists) matters → easiness to tax \uparrow fear of democratization → democratization more likely to happen in industrialized societies.

The effects of inequality

↑ inter-group inequality:

- ↑ burden on elites through taxes → aversion to democracy by the elites also increases and repression gets more attractive!
- ↑ benefits from a coup → democracy is less consolidated!
- ↑ pressure from citizens to democratize → higher threat.
- Result: inverse U-shaped relation between inequality and the likelihood of democracy. More likely with middle inequality, where there is no satisfaction with the system and elites are not very averse to democracy.

Conclusions

- The models are able to reproduce the behavior we see in the historical evidence. Now we can explain the stories of UK, Singapore, South Africa and Argentina.

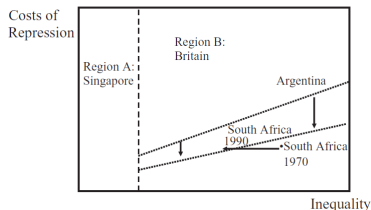


Figure 2.3. Democratization in South Africa.

- The transitions and actions depend on the relative costs of revolution, the inequality present in the society and the relative costs of repression.
- There are extensions for the model such as a dynamic perspective, wealth and factors composition (explaining why democracies emerge on industrialized societies vs agrarian societies), globalization effects and the importance of the middle class as buffer for the elites.

THE END

The static model

Static Model

$$\hat{y}^i = (1 - \tau)y^i + (\tau - C(\tau))\bar{y} \quad (1)$$

$$y^p = \frac{(1 - \theta)\bar{y}}{1 - \delta} \text{ and } y^r = \frac{\theta\bar{y}}{\delta} \quad (2)$$

Repression

$$V^p(O|\kappa) = (1 - r)(1 - \kappa)y^p + r\frac{(1 - \mu)\bar{y}}{1 - \delta} \quad (3)$$

$$V^r(O|\kappa) = (1 - r)(1 - \kappa)y^r \quad (4)$$

Revolution

$$V^p(R|\mu) = \frac{(1 - \mu)\bar{y}}{1 - \delta} \quad (5)$$

$$V^r(R|\mu) = 0 \quad (6)$$

The static model

Democracy

$$V^p(D) = V(y^p | \tau^D = \tau^p) = y^p + \tau^p(\bar{y} - y^p) - C(\tau^p)\bar{y} \quad (7)$$

$$V^r(D) = V(y^r | \tau^D = \tau^p) = y^r + \tau^p(\bar{y} - y^r) - C(\tau^p)\bar{y} \quad (8)$$

Non-Democracy with elites changing tax

$$V^p(N) = V(y^p | \tau^N = \tau^r) = y^p \quad (9)$$

$$V^r(N) = V(y^r | \tau^N = \tau^r) = y^r \quad (10)$$

Non-Democracy with tax fixed

$$V^r(y^r | \tau^N = \hat{\tau}) = y^r + \hat{\tau}(\bar{y} - y^r) - C(\hat{\tau})\bar{y} \quad (11)$$

$$V^p(y^p | \tau^N = \hat{\tau}) = y^p + \hat{\tau}(\bar{y} - y^p) - C(\hat{\tau})\bar{y} \quad (12)$$

The static model

Indifference between revolution and non-democracy with commitment: μ^*

$$V^P(R, \mu) = V^P(N, \tau^N = \tau^P) \rightarrow \mu^* = \theta - p(\theta^P(\theta - \delta) - (1 - \delta)C(\theta^P)) \quad (13)$$

Indifference between repression and non-democracy with commitment: $\hat{\kappa}(r)$

$$V^r(O, \hat{\kappa}(r)) = V^r(N, \tau^N = \hat{\tau}) \rightarrow \hat{\kappa}(r) = -\frac{r}{1-r} + \frac{P}{(1-r)\theta} [\delta C(\hat{\tau}) - \hat{\tau}(\delta - \theta)] \quad (14)$$

Indifference between repression and democracy: $\tilde{\kappa}(r)$

$$V^r(O, \tilde{\kappa}(r)) = V^r(D) \rightarrow \tilde{\kappa}(r) = -\frac{r}{1-r} + \frac{1}{(1-r)\theta} [\delta C(\tau^P) - \tau^P(\delta - \theta)] \quad (15)$$

For poor: democracy weakly preferred to revolution:

$$V^P(D) \geq V^P(R, \mu) \rightarrow \mu \geq \theta - (\tau^P(\theta - \delta) - (1 - \delta)C(\tau^P)) \quad (16)$$