

# 2 Some Lessons on the Efficiency of Democracy from a Study of Dictatorship

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## 1 BACKGROUND

In recent years there has been a great deal of new work on the efficiency of democracy. The most important contributions have probably been the literature on probabilistic voting,<sup>1</sup> 'the rational partisan model' originated by Wittman (1983) and developed further by Alesina (1988) and others, and the 'new institutional economics', especially that applied to bureaucratic theory (Breton and Wintrobe, 1975 and 1982; Weingast and Moran, 1983) which has tended to displace the old literature on the inefficiency of bureaucracy. However, all these models, like the older median voter model or the Stigler-Peltzman-Olson-Becker interest group approach, have been developed without reference to non-democratic regimes. It is odd that economists have spilled so much ink modelling monopoly in the private sector, where it is a relatively trivial problem, while hardly any effort has been exerted<sup>2</sup> modelling monopoly in politics, where it is probably the most important problem in the social sciences.

The point of view adopted here is that a comparative perspective can shed new light on the issue of the efficiency of democracy. For example, at present it is very rare in the public choice literature to distinguish between different varieties of democracy,<sup>3</sup> that is, between democracies that are strong versus those that are not – corrupt or not, effective or not, representative or not. Indeed there is no really satisfactory distinction, as I will elaborate, between democracy and dictatorship. The contrast is typically drawn between mechanisms of allocation

in the 'public' versus those in the private sector. And 'public' is typically identified with corrupt, weak or authoritarian government.

The Niskanen model of bureaucracy, for example, is fundamentally based on the idea of a weak, even helpless, sponsor incapable of counteracting the machinations and self-serving distortions of a rapacious bureaucracy. The interest group model of Stigler (1971), Peltzman (1976), Becker (1983) and Olson (1982) is a paradigm example of a corrupt government, the willing or unwilling tool of interest groups. And is it an accident that the economists' concept of an ideal government is a dictatorship – the social welfare function in which the autocrat 'cares' for the people, and wants to maximize their welfare? Of course, there will be an immediate objection that the latter is a purely normative conception, designed to make comparisons, and to expose the circumstances where efficiency losses are to be expected. But it shows how remote standard economic thinking is from political processes. Would an ideal democracy do just as well? Would it not sometimes be more interesting, and more appropriate, to compare the outcomes of economic processes to those that would result under an ideal democracy rather than an idealized dictatorship? Finally, what if there is a conflict between these two: what, for example, if the outcomes that are ideal from the point of view of maximizing the strength of democracy are not those which are optimal from the point of view of maximizing wealth?

In this chapter I investigate these questions on the basis of my recent work on dictatorship published in Wintrobe (1998). So these are lessons for the study of political efficiency from the study of dictatorship.

## 2 THE PERSPECTIVE

One way to look at dictatorships is in terms of the age-old quest for absolute power. Many of the regimes considered in Wintrobe (1997b) exemplified this pursuit in one or another of its forms: Ancient Rome (where the Roman emperor monopolized formal political power in the civilized world), Nazi Germany (with its objective of absolute domination by the state over the individual's thoughts and actions), and Communism, with its aim of world domination. However, there is another type of dictatorship that exemplifies the exact opposite point of view; I refer mainly to the revolving, unstable and chimeric dictatorships in much of the underdeveloped world. But even Czar Nicholas II admitted, 'I don't rule Russia: a thousand clerks do!' It was not uncommon

to refer to the Soviet regime, especially in its final stages, as a bumbling behemoth, incapable of anything but totalitarian torpor.<sup>4</sup> Throughout human history and the history of political thought we find these different images of dictatorship: sometimes representing absolute power, at other times, complete impotence. Similarly, the autocrats themselves are variously depicted as ruthlessly selfish and in command of their constituents; as bumbling fools; or as wise, and even benevolent, leaders. I tried to avoid all these partial views, and to generate a model that is precise and yields rigorous implications, and which generates each of these types of dictatorship as a special case of a more general model. Its starting point is what I called the 'Dictator's Dilemma' – the problem, facing any autocrat, of knowing how much support s/he has among the general population, as well as among smaller groups with the power to depose him.

It is true that the dictator has power over his or her subjects. But this very power over them breeds a reluctance among the citizenry to signal displeasure with the dictator's policies. This fear on their part in turn breeds fear *on the part of the dictator*, since, not knowing what the population thinks of his policies, he cannot in the first instance know how secure is his tenure in office. Of course, the population has good reason to fear him or her. But this very fear, as well as ambition or jealousy, will make many among them look for ways to get rid of the dictator. So the dictator has every reason to suspect that there are plots against him, and a common method of removing a dictator from office has indeed been assassination. As a consequence, the most likely personality characteristic possessed by dictators is *paranoia*, and many of the 'great dictators' of human history have in fact been consumed by this form of anxiety, including the Roman emperors Nero and Tiberius, as Veyne (1990) or Suetonius (1957) show, and, in our own time, Josef Stalin, and in Li's (1994) study Mao Tse Tung. Even the dictator who is not afraid but afflicted with hubris still faces a problem: to the extent that s/he has real enemies, repression is necessary to prevent them from shortening his/her tenure in office (and possibly in this world). But repression is costly, and resources spent in that way are not available for other purposes, such as redecorating the palace. How much in the way of resources must be used in order to survive in office?

From a theoretical point of view, the Dictator's Dilemma originates in the lack of a mechanism to enforce trades or commitments in politics. It is advantageous for the dictator to 'buy off' some of his constituents, especially those who may be too powerful to repress, and

those whose demands are easily satisfied. So a simple trade of rents or policies for support would solve the dictator's dilemma, and also allow his subjects to rest easily. But there is no mechanism analogous to legal contractual enforcement that would enforce this trade. A dictator who reneges on some commitment cannot be sued in court. Another way to put it is that the dictator and his subjects have a mutual *signalling* problem. The problem arises in political life generally. In a democracy, politicians make promises, hoping for support (votes) in exchange. But how can this exchange be enforced? The predicament is particularly severe in a dictatorship, because the institutions of democracy – such as elections, a free press and an independent judiciary – all provide means whereby dissatisfaction with public policies may be communicated between citizens and their political leaders. In dispensing with these institutions, the dictator gains a freedom of action unknown in democracy, but at a cost: the loss of the capacity to find out just how popular (and therefore how safe) he really is.

To illustrate this, consider the following dispatch to President Mobutu of Zaïre from his secret service quoted in Schatzberg (1988, p. 47): 'During this ten day period all remains calm across all the area of Mongola. All the people work in joy, doubling their energy thanks to the continuity of the new regime'.

Did this make Mobutu feel more, or less secure? But a dictator's dilemma is not insoluble. Dictatorships with any permanence are those who discover and institutionalize mechanisms that 'automatically' both reward their supporters and monitor their support, and which fund these programmes through taxation and the systematic repression of the opposition. These institutions of repression and redistribution partially solve the dilemma one way or another, and define the character of the dictatorship. I have examined a number of such systems in Wintrobe (1998), including Caesarism (in which the mechanism is provided by gifts and external conquest); Communism (party direction and control of the economic system); apartheid (the 'pass' system); and Nazism (war and ethnic cleansing). Other dictatorships are more temporary: in this category, generally called *tinpots*, I have placed military dictatorships, 'capitalist authoritarians', kleptocrats, and other regimes with more limited purposes.

The other side of the dictator's coin<sup>5</sup> is repression, the use of which is the hallmark of dictatorships of all stripes. However, while repression is a constant under autocratic regimes, its level is not, and explaining changes in the level of repression is fundamental in explaining the behaviour of dictatorship. The basic difference between dictatorship

and democracy is that the dictator, in response to a failure of some programme, or fall in popularity, is capable of increasing the level of repression to maintain his hold on power. It gives the dictator an extra 'degree of freedom' in implementing policy.

The use of repression does not mean that dictators cannot be popular. Indeed, dictators are typically much more widely supported than is commonly believed; it sometimes appears from historical records that the more repressive they were, the more popular they became!<sup>6</sup> All the evidence indicates that Adolf Hitler was very popular. Communism's current come back in Eastern Europe is an illustration of how *popular* it was at one time; when it became unpopular, the regime fell. Indeed, sometimes the only dictators that are really unpopular seem to be the ones that *economists* like – President Pinochet in Chile is the best example.

So the dictator can be thought of as using two instruments to stay in power: repression and support or loyalty. I have developed a general model in which the dictator is assumed to use these instruments to maximize utility, which depends on both his consumption and his power,<sup>7</sup> subject to constraints on the accumulation of power and resources. From this model, four 'types' of dictator emerge, according to the levels of these two instruments under their regimes: *tyrants* (high repression, low support); *tinpots* (low levels of both variables); *totalitarians* (high levels of both); and *timocrats* (high support, low repression – possibly a mythical case). More important than classification is the use of the model to explain the *behaviour* of dictatorship. One central question is what happens to the level of repression if the dictator becomes more popular – for example, because of successful foreign conquest or an improvement in the rate of economic growth or some other dimension of economic performance for which the regime can take credit. The answer differs for different types of regime: under tinpots or tyrannies, the level of repression will fall if the regime becomes more popular, but the reverse implication holds for totalitarian regimes. This point also provides the key to the question of sanctions.

A third broad implication is that the key to the history or evolution of these regimes is intimately bound up with the capacity of these institutions to function and to adapt over time, irrespective of the personality or the preferences of the leadership. Thus I traced the fall of dictatorship in various regimes to the malfunctioning of these institutions under changing circumstances.

The framework sheds some light on the difference between democracy and dictatorship. Since autocrats, just like democratic leaders, seek

the support of their citizens to stay in office, the difference between democracy and dictatorship does *not* lie in this. Rather, the central difference between the two types of regime lies in the fact that, through the use of political repression, the right to decide who governs has been abrogated by the dictator. Other differences between democracy and dictatorship follow from the basic point that the use of repression on a reasonably substantial scale is what distinguishes dictatorship from democracy. They are explored below, first in Section 3, in the context of rent-seeking, and then the idea of efficiency in Section 4, while Section 5 concludes the chapter.

### 3 RENT-SEEKING

One reason for starting with rent-seeking is that this is probably the idea from public choice that has penetrated general economics the most and become the most significant contribution of public choice to the economist's standard tool kit. The standard model makes two crucial assumptions:

1. *The resources used in bidding are completely wasted.* In the classic formula, money is spent hiring lawyers to lobby politicians to give their client the rent. Since the activities of lawyers are always pure waste in economics, putting the assumption this way makes it particularly easy to swallow.
2. *It makes no difference who gets the rent.* That is, no public benefit will accrue, in any form, if one rather than another of the contestants wins; the contest does not sort out the good from the bad, nor does the necessity of competing for rents induce greater efficiency on the part of the contestants, or cause them to modify what they would do in any way that might affect the public. In the standard formulation it follows that if there are ten firms bidding for a prize of \$100 000, each firm will spend \$10 000 on lawyers, leading, in the simplest version, to economic waste equal to the size of the rent.

The central problem with this formulation, which to my knowledge has never been pointed out, is that a rent-seeking contest that conforms to this description is *irrational* from the point of view of *politicians*. Why would politicians organize it in this way? Why should they not attempt instead to profit from the bidding process – for example,

by suggesting to competitors that they offer cash payments instead of wasting resources on lobbying? In this way, the politicians could themselves collect all the rents, eliminate the waste and profit directly from it. But if bribes instead of lobbying are used, the money received in bribes by the politicians is not wasted, but a pure transfer to politicians from interest groups which represents no *social* waste or deadweight loss at all.

To see other ways in which the rent-seeking process can be organized, consider what typically happens under dictatorship. Dictators – at least the more ‘successful’ (that is, relatively long-lived) – variety, often know how to organize things so that they get a substantial return out of the process of rent-seeking. Indeed, under many regimes, the distribution of rents reached legendary proportions. Examples would include the Marcos regime in the Philippines – for details see Hutchcroft (1991) and Wurfel (1988); Ghana and the military regimes in Latin America in the 1970s and elsewhere, whose most concrete and lasting achievement has been to increase military salaries and the military budget. The simplest explanation for the legendary ‘shortages’ characteristic of Soviet-type systems is that the shortages created rents, the distribution of which was controlled by the Communist Party and which could therefore be traded for political loyalty. The South African system of apartheid provided job reservation for white workers, and the institution of the pass for the benefit of white capitalists.<sup>8</sup> Finally, the creation and distribution of rents on ethnic grounds in a dictatorship like that in Nazi Germany can be mentioned simply to complete the list.

In all these systems, resources are not wasted bidding for the rents of the public sector. Rents are given out, and the dictator receives political support, money payments or other things in return. In other words, there is *no waste* in the economic sense. Dictators typically control the waste by imposing restrictions on entry into competition for the rents given out by the state. Sometimes the rents are reserved for specific groups, as is obviously clear from the examples we have been referring to. Blacks were obviously restricted from competing with whites in South Africa: the job reservation system could obviously not have been converted into a programme for overpaying blacks if they bid hard enough. The Chicago Boys under Pinochet were not interested in the pleas of the old urban coalition (Constable and Valenzuela, 1991). Gypsies, homosexuals, Jews and Communists could not have gained special preferences under the Nazis; they were the victims of the regime’s repression, and, even if they had offered more, they were simply not allowed to compete for rents. Again, the reason

for this should be obvious: if free competition for rents was allowed, then, since rent-seeking results in net *losses*, dictators would lose support by distributing rents through an openly competitive process!

How does democracy differ? Restrictions on the bidding process for rights and privileges, or for goods and services distributed by the state, which I have just argued are characteristic of authoritarian governments, are clearly inconsistent with the very notion of democracy. A typical democracy will impose conditions such as the following in any process of allocating public resources:

1. No restrictions on who can bid, except of a technical nature.
2. The winning bid is selected on the basis of criteria involving net benefit to the public, such as the worth of the project, costs, and so on, and not on the political connections, race, ethnicity, status and so on of the bidders.
3. The process of bidding should be as open as possible, and open to review by an independent judiciary.

The inefficiency of democracy, according to the rent-seeking model, is now exposed. All these conditions imply that more resources will be wasted under the bidding process in democracy. In short, *democracy is a much more wasteful system than dictatorship*.

Conclusions like these have caused much concern, since few people would wish to embrace the notion that more autocracy is good for the economy. The journal *The Economist*, for example, always shrinks from this recommendation; however it embraces the analysis and the prescriptions of the rent-seeking model in other respects, such as closing down government enterprises, or reducing government spending, and however wistfully, it reports the achievements of the Chinese Communists or the legacy of the Pinochet regime.

The closely related idea that insulating economic policy from democratic processes – ‘a little bit’ of dictatorship – can be good for economic development has gained currency in political science, and among theorists of development from both economics and political science, who specifically point to the capacity of authoritarian states to resist distributional pressures as the key to successful development. The most influential contemporary exponent of this view seems to be Stephen Haggard (1990), although the argument is much older and, for a good list of earlier references, see Przeworski and Limongi (1993). Among development economists, Bardhan (1990, p. 5) is explicit on the redistributive issue:



Once developmental goals are centrally involved in the issues of the legitimacy of the regime, I think it is not so much authoritarianism *per se* which makes a difference, but the extent of insulation that the decision makers can organize against the ravages of short-run pork-barrel politics.

However, before embracing conclusions like these, note that there are serious problems with the theory. The first of these is that the existence of losses from pure rent-seeking implies that there are gains from trade between politicians and rent-seekers. To the extent that trade between these groups takes place, through bribery, corruption, extortion, and so on, the waste in the process will be eliminated. Consequently, if transaction costs are low, the equilibrium will not be as described in the rent-seeking model, but the 'corruption' equilibrium – with no waste, but a defrauded public. On the other hand, suppose that these transactions are prevented, because the rules against influence peddling, bribery and extortion (the existence of which are characteristic of democracy everywhere) are well-enforced by alert and powerful independent authorities. This gives a second possible equilibrium, in which fair competition among bidders is enforced. If this bidding results in rents being distributed to those who bid the lowest, or who offer the public the most in the way of benefits, then this process produces something useful. The natural name to give this equilibrium is 'strong democracy'.

The rent-seeking model rules out this outcome by assuming that it makes no difference who wins the contest, and that no social benefits result from the bidding process. Combining these assumptions with the assumption that the rules against corruption and the enforcement of them are so powerful that corruption is eliminated, gives a third possible equilibrium: waste. A more appropriate name for this equilibrium is 'irrational', because it implies that political institutions are fundamentally irrational in design: all they do is ensure the persistence of waste. The Coase theorem implies that one should be sceptical of such equilibria.

Now it may appear that this is just a quibble. Suppose that the losses from rent-seeking are not genuine waste in the economic sense, but 'merely' unauthorized – in effect, fraudulent – transfers to politicians and bureaucrats. It is true that these are not waste as defined in economic theory, but they are certainly not what cost-benefit analysis promised! If the proper equilibrium involves corruption, not rent-seeking, isn't that bad enough?

One reason for insisting on the distinction between corruption and rent-seeking is that the solutions to these two problems can be vastly different. In particular, it is easy to imagine that a 'little bit of authoritarianism' might reduce rent-seeking (which, after all, is a form of political competition). It is much more difficult to believe that autocracy is the solution to corruption. Under autocracy, there are fewer (or no) constraints on the practice of rent distribution by independent courts or an inquisitory free press, and political dictatorships have a significantly larger capacity to organize the distribution of rents in order to maximize their own 'take'. Moreover, the dictator is capable of sanctioning non-repayment directly, solving this enforcement problem inherent in rent-seeking trades in a way that no democracy is capable of.

The second problem with the model is the assumption that it does not matter who gets the rent. Elections, consideration of applications for licences or rights to run private hospitals, political regulations of competitions and so on do not, on this assumption, decide anything in a manner that benefits the public. But this is often a silly assumption: elections may be viewed as rent-seeking contests, for example, but it matters who wins. This is explicit in the Wittman (1983) and Alesina (1988) model of politics, in which the parties may have very different equilibrium platforms. And in many models of the economy it certainly makes a difference who gets a tariff, an import licence, or a TV channel. For example, consider the Bulow and Summers (1986) model. In this model there are two sectors: the 'good' jobs sector – in which jobs are difficult to monitor, and therefore employers pay their workers a rent or premium in order to discourage shirking; and a 'bad' jobs sector, where monitoring is costless and therefore such premiums are unnecessary. For our purposes, the point is that the rents are 'real'; they are essential in order to solve the monitoring problem. A tariff to protect the 'good' jobs sector will, by protecting these rents, raise real national income in the country as a whole (while, of course, lowering world GNP). On the other hand, a tariff on the products of the 'bad' jobs sector will have no such positive effect. If competition among rent-seekers results in the tariff being removed from the 'good' jobs sector, and placed on the 'bad' jobs sector, GNP in the home country (and in the world) will fall.

Another way to see the crucial role of this assumption (that it is immaterial who wins a rent-seeking contest) is to apply it to the workings of the private sector. Precisely the same implications (that competition results in pure waste) follow, as shown in Milgrom's analysis of private-sector rent-seeking, or in the work of Frank and Cook (1995)

on 'winner-take-all markets'. On the other hand, one could define a well-functioning democracy the same way as a well-functioning economy is typically defined – as one where open competition implies that the right to do something (that is, obtain a broadcast licence, a tariff, an airline landing right or an import licence) is allocated into the proper hands. Such a model is not at all far-fetched, neither in theory nor in practice. Indeed, this conclusion is more or less what the probabilistic voting model says (Mueller, 1989). The only difference between competition in the public and private sectors is that in the public sector the bids are made in political support or votes rather than money.

From this perspective, the basic aim of democratic institutions to guarantee openness and competition for public projects is entirely sensible, and reduces waste, fraud and the misallocation of resources in the public sector. If, as alleged the contract for the airport in Toronto was obtained through bribing the prime minister of Canada (Cameron, 1995); if, as the investigation known as 'Mani Pulite' (Clean Hands) seems to have demonstrated, public contracts in Italy over a period of many years had been routinely obtained through bribery and corruption; if there is widespread corruption in the post-Soviet Russian political system, these are not instances of 'democracy in action' but a perversion of it; public welfare would in all these cases be improved, not worsened if the bidding process were open and not corrupt; and, finally, the situation would worsen if the system were less democratic.

To buttress this last assertion, I consider a straightforward question: on theoretical grounds, which type of regime can be expected to engage in more redistribution – democracy or dictatorship? The analysis proceeds by examining the equilibrium level of redistribution in a number of well-known models of democracy – that of Meltzer and Richards (1981), in which redistribution takes place from the mean to the median income voter; Becker's (1983) interest group model; and the probabilistic voting model of Coughlin, Mueller and Murrell (1990). I then ask what would happen to the level of redistribution if a dictator took over the government. The analysis suggests that, in all these cases, we would expect more redistribution under a dictatorship than a democracy. I conduct the analysis with reference to the standard economic theory of monopoly. In that model, it is assumed that a monopoly takes over a competitive industry, and that the cost curves of the firms, which now become the monopolist's plants, are unchanged. Thus, I assume that a dictator 'takes over' a democratic government, and that this change does not affect the preferences of the people for public goods or public policies.

To illustrate, the simplest model of political redistribution under democracy is probably Becker's (1983) model of competition among interest groups. Most of the analysis is conducted with just two homogeneous groups,  $s$  and  $t$ , who engage in political activity in order to raise the incomes of their members. Both groups produce political 'pressure' and, in equilibrium, group  $s$  receives a subsidy financed by taxes on group  $t$ . The size of the tax and subsidy is determined by deadweight losses (which rise as the tax or subsidy rises) and by the fact that the 'loser' in the political game (the taxed group  $t$ ) need not passively accept his or her losses but can limit them through lobbying, threats, disobedience, migration and other kinds of political pressure. Becker presents no model of the political system; rather, he suggests that the analysis is specifically intended to apply to many different kinds of political systems, including dictatorship.

Suppose, however, that the equilibrium described by Becker corresponds to that under democracy. How would it change if this democracy were taken over by a dictatorship? There are two main forces that would affect the outcome. The first is that the dictator has the power to repress opposition to his policies; the second is that the dictator is more insecure about his political support, since, as discussed in the previous section, among other things, the overt proffering of support from those over whom he has power is necessarily less reliable than offers of support to a democratic politician. If the preferences and constellation of power relations between the two groups is unchanged (the analysis would be unchanged if many groups were assumed) the most reasonable assumption to make is that the dictator achieves power with the support of the subsidized group. The dictator, however, has the power that was unavailable to a democratic politician directly to repress pressure by the taxed group by banning their political organizations, refusing to permit their views to appear in the media, refusing to allow them to meet or organize, and jailing, torturing or even executing their leaders. In terms of Becker's analysis, the effect of political repression is the same as if the taxed group experienced a reduction in its capacity to produce pressure, as described in Becker's Proposition 1. The result is an increase in the size of the subsidy to group  $s$  and an increase in the tax on group  $t$ , that is, more redistribution than in the democratic case.

In the same way, it is easy to show that empowering the 'decisive voter' in the Meltzer-Richards model with the power to repress the opposition permits higher taxation and, therefore, more redistribution. Finally, in the probabilistic voting model, the level of taxes imposed

by expected vote-maximizing democratic politicians on groups who are likely to be opposed to them, or whose probability of voting for them is low, is limited by the fact their maximization includes these groups. The dictator faces no such constraint, and therefore can tax them more heavily.

#### 4 EFFICIENCY AND THE STRENGTH OF DEMOCRACY

The previous section suggested two characteristics of a strong democracy: the presence and enforcement of rules that prevent corruption in the allocation of public resources; and that the process of bidding for public contracts should be as open as possible. We can discover others if we first put this issue into a general framework. Although no consensus on the term exists, a 'weak' democracy may be defined as one that is unresponsive to the wishes of its constituents or is unable to address or cope with major problems (Blais, 1993; Putnam, 1993). Some obvious examples are the contemporary Russian, Filipino, Nicaraguan or Italian governments, or many of the Latin-American democracies of the 1970s and possibly of the 1990s; the most dramatic historical example is undoubtedly the Weimar Republic. There can be many reasons for the fragility of these governments: the most commonly discussed ones are the polarization of society into different groups with relatively equal power, so that neither party can act to implement its programme without enraging the other; constitutional rules that check the capacity of the government to act; the presence of substantial private interests with the capacity to check the government; the existence of one or more powerful bureaucracies with the capacity to subvert the government's programme, as is often the case with the military in Latin America, and as is often alleged about the *nomenklatura* in contemporary Russia; a history of corruption which has resulted in a lack of trust in the government by the citizenry – say in Italy, or a system of voting such as pure proportional representation, which tends to produce fragmented and unstable governing coalitions (Italy again).

In Wintrobe (1998), following Howitt and Wintrobe, 1993 and 1995, I focused on modelling the situation where a democratic government can be in an *inaction* equilibrium. More precisely, the concern was to describe an equilibrium where, despite widespread demands for action, and possible efficiency losses from inaction, it nevertheless was in the interests of both the government and the political opposition not to propose or try to implement change but to maintain the status quo.

We defined a zone of inaction with these characteristics, and showed that this area tended to be larger: (i) the more polarized the parties; (ii) the less trust citizens have in the parties; (iii) the more intransigent the preferences of the population; and (iv) the more fragmented the party system. In general, the analysis points to a trade-off between action and representation, in the sense that the more points of view that are represented by the political system, the smaller its capacity for action. Most important, it suggests that inaction can result in the breakdown of democracy.

It immediately follows that, if economic processes that are otherwise efficient tend to result in a political structure that is conducive to inaction, such processes in effect weaken democracy and make its breakdown more likely. Even for those who only care about economic efficiency and do not care about democracy, there is obviously a problem, to the extent that democracy preserves capitalism, and the result from neglecting political effects could be a dictatorship which undermines it.

To illustrate this point, consider the standard diagnoses and prescriptions of the 'structural adjustment' school, which proposes independent central banks, removing government intervention as much as possible, weakening the power of interest groups and so on. These can and should be assessed, not merely with respect to their economic effects, but in terms of their capacity to affect the strength of democracy as well.

Like any complex policy, structural adjustment can be expected to have both negative and positive effects. Let us look first at the positive effects. For example, to the extent that strengthening the private sector develops sources of power independent of the government, it is possible that the political culture becomes more pluralistic; in this way a structural adjustment programme may strengthen democracy. Another pro-democracy force of these programmes is that, to the extent that the governments in the countries to which these programmes are applied were corrupt, the programmes, by reducing the government's capacity for corrupt exchanges, could in this way possibly prepare the way for a restoration of trust in the political process and thus promote democracy. On the other hand, the programmes reduce the strength of democracy to the extent that they promote: (i) *polarization*, if they increase the disparity in income distribution. (In this respect it is worth mentioning the well-known argument, aptly put in Kaufmann and Stallings (1991), or Dornbusch and Edwards (1991), that the economic success of East Asia is partly a result of its relatively equal income distribution, compared especially to that in many Latin-American countries); (ii) *inaction*, as the capacity of governments to address economic and social problems

is devalued; (iii) *atomization* – to the extent that the removal of tariffs and other measures destroys the cohesion of urban coalitions and other interest groups, and to the extent that market solutions and export orientation reduce the value of political organization; and finally (iv) a reduction in the importance of *civil society* for the same reason – that is, the destruction of interest groups.

The list of effects I have just drawn up could obviously be expanded, but perhaps this brief sketch is enough to make my point: there is no reason why the economics of politics have to stick to welfare criteria inherited from the study of economic life which ignores and has no place for politics. On the contrary, it is as natural and important to ask what the effects of economic, political and social changes are on the strength of democracy as they are on economic efficiency.

## 5 CONCLUSION

I have suggested that the basic problem in public choice is that there is no distinction in that literature between different varieties of democracy – that is, between strong versus weak, corrupt or not, effective or not, representative or not. Indeed, there is no real distinction drawn between democracy and dictatorship. The contrast is always drawn between mechanisms of allocation in the public sector versus those in the private sector. And ‘public’ is typically identified with corrupt, weak or authoritarian government. Part of the reason for this state of affairs is that so little effort has been put into modelling dictatorship in public choice. I believe that once we have a good theory of dictatorship, democracy will no longer look so bad! And public choice will be a much more useful tool for understanding and for prescription when it distinguishes between ‘good’ and ‘bad’ forms of government.

### Notes

1. Mueller (1989) surveys the literature on probabilistic voting. Alesina (1995) reviews the new literature on the political business cycle.
2. There are, of course, important exceptions, including the work of Tullock (1987), North (1981), North and Weingast (1989) and, more recently Olson (1993), as well as my own (Wintrobe; 1990, 1991) papers.
3. The basis for a distinction really only exists in one branch of the public choice literature (the Wittman–Alesina model of polarised preferences, in which preferences can be more or less polarised).

4. See, for example, almost any work by Alexander Zinoviev, or the diagnoses of the Soviet economy by most Western economists of the 1980s, for example, Alec Nove (1980).
5. The Roman emperors had coins struck with their image on them as soon as they assumed office.
6. The reader will find this proposition less counter-intuitive as soon as he or she realises that one of the most important targets of the autocrat's repressive apparatus is negative information about his regime and its policies.
7. I assume that power enters the utility function directly, in addition to its use in generating resources for consumption. Some dictators (for example, Marcos, Noriega) are undoubtedly motivated largely by consumption. For others (for example, Hitler, Stalin) such an assumption is obviously silly.
8. Black workers in the 'White' manufacturing sector could only remain in that sector with a 'pass'. A Black worker who lost his job lost the right to work in the White sector. So the system lowered Black wages in the White sector, thus benefiting capitalists.

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