

# Mises' democracy–dictatorship equivalence theorem: A critique

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**Abstract** Ludwig von Mises argues that public opinion, not the form of government, is the ultimate determinant of policy. The implication is that, holding public opinion constant, democracies and dictatorships will have the same policies—a result I call Mises' Democracy–Dictatorship Equivalence Theorem. According to Mises, dictators have to comply with public opinion or else they will be overthrown. I argue that he seriously overestimates the power of revolution to discipline dictators. Mises was perceptive to note that, in practice, “dictatorially imposed” policies are often democratically sustainable, but he neglected several mechanisms—all more plausible than the threat of revolution—capable of explaining this fact.

**Keywords** Democracy · Dictatorship · Public opinion · Revolution

**JEL codes** D72 · D74 · D70

## 1 Introduction

Ludwig von Mises vigorously defends democracy on utilitarian grounds. Unlike most advocates of democracy, however, he denies that democracy causes *better policies* than dictatorship. On Mises' view, *public opinion* determines policy in democracies and dictatorships alike.<sup>1</sup> As he explains in *Theory and History*:

A statesman can succeed only insofar as his plans are adjusted to the climate of opinion of his time, that is to the ideas that have got hold of his fellows' minds. He can become a leader only if he is prepared to guide people along the paths they want to walk and toward the goal they want to attain. A statesman who antagonizes public opinion is

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<sup>1</sup>For a defense of Mises' position and discussion of its precursors, see also Murray Rothbard's introduction to de la Boetie (1975: 9–42).

doomed to failure. No matter whether he is an autocrat or an officer of a democracy, the politician must give the people what they wish to get, very much as a businessman must supply the customers with the things they wish to acquire (1985a: 187).

The root cause of bad policies is not, therefore, the form of government but the quality of public opinion. The advantage of democracy over dictatorship, for Mises, is simply that it reaches the inevitable political outcome with minimal bloodshed:

Civil war and revolution are the means by which the discontented majorities overthrow rulers and methods of government which do not suit them. For the sake of domestic peace liberalism aims at democratic government. Democracy is therefore not a revolutionary institution. On the contrary, it is the very means of preventing revolutions and civil wars. It provides a method for the peaceful adjustment of government to the will of the majority (1998a: 150).

One could even say that Mises sees democracy much as John Stuart Mill sees money: “It is a machine for doing quickly and commodiously, what would be done, though less quickly and commodiously, without it...” (Mill 2006: 506). The upshot, explored at length by Mises’ student Murray Rothbard, is that political thinkers have to explain *why* every government, even the most despotic, is popular—a problem that Rothbard dubs “the mystery of civil obedience” (de la Boetie 1975: 13).

When governments adopt policies they disapprove of, many thinkers argue that public opinion has been ignored. Mises will have none of this. Not just Roosevelt but Hitler himself enjoyed popular support:

It is a fact that the policy of the New Deal has been supported by the voters. Nor is there any doubt that this policy will be entirely abandoned if the voters withdraw their favor from it. The United States is still a democracy. The Constitution is still intact. Elections are still free. The voters do not cast their ballot under duress. It is therefore not correct to say that the bureaucratic system carried its victory by unconstitutional and undemocratic methods (1983a: 5).

It is probable that today about 80 per cent of all German-speaking Europeans are Nazis. If we leave out the Jews, the Austrians, and the German-speaking Swiss, we might say that more than 90 per cent of the Germans support Hitler’s fight for world hegemony (1985b: 243–244).

For political theorists who assume that voters are rational, Mises’ position is hard to accept. Many dictators choose policies that lead to poverty and war. How could such policies be popular? Mises’ answer is that people suffer from systematically biased beliefs about economics, foreign policy, and more (Caplan and Stringham 2005). They mistakenly believe that counter-productive policies are the path to prosperity:

Democracy guarantees a system of government in accordance with the wishes and plans of the majority. But it cannot prevent majorities from falling victim to erroneous ideas and from adopting inappropriate policies which not only fail to realize the ends aimed at but result in disaster (1998a, p.193).

In fact, Mises maintains that dictatorship itself is often popular. Many are willing to ignore common sense and put their faith in a charismatic dictator:

It cannot be denied that dictatorship, interventionism, and socialism are extremely popular today. No argument of logic can weaken this popularity (1998b: 85).

But what precisely is the mechanism that, holding public opinion constant, leads democracy and dictatorship to converge on equivalent policies? Does Mises recognize any loopholes in what we may call his Democracy–Dictatorship Equivalence Theorem? More importantly, is his analysis correct? Is it really true that—collateral damage aside—we should not expect replacing dictatorship with democracy to lead to systematic changes in policy?

In an earlier paper (Caplan and Stringham 2005), my co-author Edward Stringham and I argued that Mises was a political economist ahead of his time, whose writings offer promising directions for new research. The current paper pursues one of these directions. It explores Mises' view that the threat of revolution forces dictators to choose the same policies that would have prevailed under democracy. It then argues that Mises overlooked several compelling objections to his account. Despite these weaknesses, however, Mises' conclusion is better than his arguments. Although dictators are unlikely to be overthrown for defying public opinion, there are several alternative mechanisms that help make dictators' policies popular.

## 2 Mises' democracy–dictatorship equivalence theorem

Does Mises really believe that, holding public opinion fixed, democracy and dictatorship lead to the same policies? There are definitely times where he appears to claim the opposite. For example, in a discussion of Austrian business cycle theory, Mises remarks that:

[I]n a socialist economy it is only the government's value judgments that count, and the people are deprived of any means of making their own value judgments prevail. A dictator does not bother about whether or not the masses approve of his decision concerning how much to devote for current consumption and how much for additional investment. If the dictator invests more and thus curtails the means available for current consumption, the people must eat less and hold their tongues. No crisis emerges because the subjects have no opportunity to utter their dissatisfaction (1998a: 565–566).

But this is not necessarily inconsistent with Mises' broader perspective. A dictator could ignore his subjects' preferences *because they want him to*. A majority might favor car inspections, although no one likes to get one, or favor Prohibition, although most people want to drink.

In any case, when Mises *specifically compares* democracy to dictatorship or analyzes the power of public opinion, he almost invariably takes the position I ascribe to him.<sup>2</sup> He insists that, regardless of the form of government, public opinion determines economic policy:

What determines the course of a nation's economic policies is always the economic ideas held by public opinion. No government, whether democratic or dictatorial, can free itself from the sway of the generally accepted ideology (1998a: 850).

<sup>2</sup> The one clear exception I have been able to find appears in *Nation, State, and Economy*, where Mises states:

In Russia socialism certainly is not a movement of the immense majority. That it claims to be a movement in the interest of the immense majority is nothing special; all movements have claimed that. It is certain that the rule of the Bolsheviks in Russia rests just as much on possession of the government apparatus as the rule of the Romanovs once did. *A democratic Russia would not be Bolshevik* (1983b: 204; emphasis added).

However, economic policy is only a special case of a more general rule, which Mises dubs “the supremacy of public opinion”:

The supremacy of public opinion determines not only the singular role that economics occupies in the complex of thought and knowledge. It determines the whole process of human history (1998a: 863).

Mises derides “great man” theories. Even seemingly all-powerful dictators like Hitler basically had to do what their countrymen wanted them to do:

Simplified accounts of history, adapted to the capacity of people slow of comprehension, have presented history as a product of the feats of great men. The older Hohenzollern made Prussia, Bismarck made the Second Reich, William II ruined it, Hitler made and ruined the Third Reich. No serious historian ever shared in such nonsense... Every man, whether great or small, lives and acts within the frame of his age’s historical circumstances. These circumstances are determined by all the ideas and events of the preceding ages as well as by those of his own age. The Titan may outweigh each of his contemporaries; he is no match for the united forces of the dwarfs (1985a: 186–187).

Holding public opinion constant, parliamentary safeguards are unable to check the excesses of even the most notorious dictators because their “excesses” are a byproduct of the statist policies the majority wants:

It is not an accident that socialist countries are ruled in a dictatorial way. Totalitarianism and government by the people are irreconcilable. Things in Germany and Russia would not be different if Hitler and Stalin were to submit all their decrees to the decision of their “parliaments.” Under government control of business parliaments cannot be anything else than assemblies of “yes” men (1983a: 8).

What exactly is the mechanism that harmonizes public opinion and policy? In markets, Mises repeatedly argues that entrepreneurs quickly go out of business unless they satisfy their customers: “If they fail to produce in the cheapest and best possible way the commodities which the consumers are asking for most urgently, they suffer losses and are finally eliminated from their entrepreneurial position” (1980: 108). Mises claims that a similarly strong selection mechanism weeds out politicians who fail to satisfy public opinion<sup>3</sup>:

No matter what the constitution of the country, governments always have to pursue that policy which is deemed right and beneficial by public opinion. Were they to attempt to

<sup>3</sup> Mises does however maintain that, in a sense, the market is “more democratic” than democracy. To describe the market “as a democracy in which every penny gives a right to cast a ballot” is overly generous to democracy:

It would be more correct to say that a democratic constitution is a scheme to assign to the citizens in the conduct of government the same supremacy the market economy gives them in their capacity as consumers. However, the comparison is imperfect. In the political democracy only the votes cast for the majority candidate or the majority plan are effective in shaping the course of affairs. The votes polled by the minority do not directly influence policies. But on the market no vote is cast in vain (1998a: 271).

stand up against the prevailing doctrines they would very soon lose their positions to men willing to conform to the demands of the man in the street (1998b: xii).

According to Mises, all governments have some version of this selection mechanism. Under democracy, the selection mechanism is elections. Politicians who act contrary to public opinion are unable to get enough votes to stay in office. Under dictatorship, in contrast, the selection mechanism is *revolution*:

The difference between democracy and despotism does not affect the final outcome. It refers only to the method by which the adjustment of the system of government to the ideology held by public opinion is brought about. Unpopular autocrats can only be dethroned by revolutionary upheavals, while unpopular democratic rulers are peacefully ousted in the next election (1998a: 863).

Why would these selection mechanisms yield the same outcomes? First, in both elections and violent conflicts, people join the side they prefer to win.<sup>4</sup> Second, in both elections and violent conflicts, the side with more people wins:

The ultimate victor to emerge from such conflicts will be the faction strongest in number. In the long run, a minority—even if it is composed of the most capable and energetic—cannot succeed in resisting the majority (1978: 50).

The tyrant must have a retinue of partisans who obey his orders of their own accord. Their spontaneous obedience provides him with the apparatus he needs for the conquest of other people. Whether or not he succeeds in making his sway last depends on the numerical relation of the two groups, those who support him voluntarily and those whom he beats into submission. Though a tyrant may temporarily rule through a minority if this minority is armed and the majority is not, in the long run a minority cannot keep the majority in subservience. The oppressed will rise in rebellion and cast off the yoke of tyranny (1998a: 189).

One might reply that numerical superiority is only one factor out of many that determine the victor in a violent conflict. But for Mises, numbers are fundamental. He does not hesitate to infer that restricting democracy to promote liberty is futile:

If judicious men see their nation, or all the nations of the world, on the road to destruction, and if they find it impossible to induce their fellow citizens to heed their counsel, they may be inclined to think it only fair and just to resort to any means whatever, in so far as it is feasible and will lead to the desired goal, in order to save everyone from disaster. Then the idea of a dictatorship of the elite, of a government by the minority maintained in power by force and ruling in the interests of all, may arise and find supporters. But force is never a means of overcoming these difficulties. The tyranny of a minority can never endure unless it succeeds in convincing the majority of the necessity or, at any rate, of the utility, of its rule. But then the minority no longer needs force to maintain itself in power (1978: 45).

<sup>4</sup> In this discussion, Mises appears to be making empirical, not praxeological, claims about human behavior. On praxeological grounds, Mises could justifiably claim that people join the side they prefer to join; he could not, however, make the stronger claim that people join the side they prefer to win. After all, someone could join the side he prefers to lose because it pays better or because he wants to be in the winning side.

In fact, Mises maintains that resorting to violence is counter-productive because it further alienates public opinion:

The suppression of all opposition by sheer violence is a most unsuitable way to win adherents to one's cause. Resort to naked force—that is, without justification in terms of intellectual arguments accepted by public opinion—merely gains new friends for those whom one is thereby trying to combat. In a battle between force and an idea, the latter always prevails (1978: 50).

The one qualification that Mises grants is that public opinion is sure to prevail only “in the long run”:

Only a group that can count on the consent of the governed can establish a lasting regime. Whoever wants to see the world governed according to his own ideas must strive for dominion over men's minds. It is impossible, in the long run, to subject men against their will to a regime that they reject (1978: 46).

Whatever the system of government may be, there cannot be any question of ruling a nation lastingly on the ground of doctrines at variance with public opinion. In the end the philosophy of the majority prevails. In the long run there cannot be any such thing as an unpopular system of government (1998a: 863).

Mises admits that a minority can temporarily rule over a majority through superior military prowess. But unless the minority persuades the majority of the legitimacy of its rule, the political order is bound to change:

Minorities too can sometimes conquer by means of superior military skill and can thus establish minority rule. But such an order of things cannot endure... All victorious minorities who have established a lasting system of government have made their sway durable by means of a belated ideological ascendancy. They have legitimized their own supremacy either by submitting to the ideologies of the defeated or by transforming them. Where neither of these two things took place, the oppressed many dispossessed the oppressing few either by open rebellion or through the silent but steadfast operation of ideological forces (1981a: 190).

Technological superiority is not a durable solution to this dilemma:

Victorious minorities sometimes owe their success to their technological superiority. This does not alter the case. In the long run it is impossible to withhold the better arms from the members of the majority. Not the equipment of their armed forces, but ideological factors safeguarded the British in India (1981a: 191).

Of course, if the “long run” could last centuries, Mises' claim would be vacuous rather than bold. But he does not rely on this qualification to insulate his position from counter-examples. His “long-run” seems to be no more than a few years. In Mises' analysis of the Russian Revolution, for example, he freely admits that the majority of Russians bitterly opposed Lenin's agricultural policies:

[W]hen the Bolsheviks seized control in Russia, they were a small minority, and their program found scant support among the great masses of their countrymen. For the peasantry, who constitute the bulk of the Russian people, would have nothing to do with the Bolshevik policy of farm collectivization. What they wanted was the division of the land among the “landed poverty,” as the Bolsheviks call this part of the population (1978: 45–46).

Despite his ruthlessness, Lenin soon had to give the peasants what they wanted:

In order to remain in power, Lenin and Trotzky not only accepted this agrarian reform, but even made it a part of their own program, which they undertook to defend against all attacks, domestic and foreign. Only thus were the Bolsheviks able to win the confidence of the great mass of the Russian people. Since they adopted this policy of land distribution, the Bolsheviks rule no longer against the will of the great mass of the people, but with their consent and support. There were only two possible alternatives open to them: either their program or their control of the government had to be sacrificed. They chose the first and remained in power (1978: 46).

Mises strangely glosses over the Bolsheviks' harsh treatment of the peasantry during the War Communism period (Pipes 1990). Lenin's practice of requisitioning to the point of mass starvation was at least as unpopular as collectivization would have been. Nevertheless, Mises could easily reply that Lenin defied public opinion for less than 4 years before—facing the collapse of his regime—he had to adopt the New Economic Policy. If Lenin could not impose unpopular policies with terror for more a few years, who could?

### 3 Flaws in the theorem

The answer, as any student of Russian history can attest, was Stalin. Mises' analysis of Bolshevik agricultural policy was published in 1927. One year later, Stalin began collectivizing Soviet agriculture (Werth 1999; Conquest 1986). By 1933, despite mass starvation and millions of deaths, private agriculture was virtually eliminated. There is no reason to think that Soviet public opinion became more favorable to collectivization during the NEP era. All historical evidence indicates that Stalin's policy was exceedingly unpopular. Most Soviet citizens were still farmers, and nothing during the 7 years from 1921–1928 convinced them that the government should seize their land. The hostility of Soviet opinion toward collectivization may have moderated with passing decades,<sup>5</sup> but Stalin's policies cannot be explained away as a short-run aberration.

It would be hard to find a more compelling counter-example to Mises' view that even dictators have to bow before public opinion. Plainly, there is some flaw in his reasoning. A weaker version of Mises' position—that dictators rarely stray far from public opinion—may well be correct. However, at minimum, the mechanism that Mises appeals to must be less reliable than he claims.<sup>6</sup>

#### 3.1 The paradox of revolution

On a theoretical level, the deepest problem with Mises' Democracy–Dictatorship Equivalence Theorem is that he conflates mere preference for outcome X with willingness to fight to get X:

Whatever the system of government may be, the foundation upon which it is built and rests is always the opinion of those ruled that to obey and to be loyal to this

<sup>5</sup> According to Malia (1994: 284), collective farming remained extremely unpopular in 1941, when there were high hopes that the German invaders would restore private property: "As the Germans advanced into the Baltic states, Bielorussia, and Ukraine, civilians often welcomed them as liberators....In particular, they hoped for the dissolution of the kolkhozes and the reopening of the churches...."

<sup>6</sup> For a broader discussion of how dictators manage to stay in power while deviating from citizen preferences, see Wintrobe (1998).



government better serves their own interests than insurrection and the establishment of another regime. The majority has the power to do away with an unpopular government and uses this power whenever it becomes convinced that its own welfare requires it (1998a: 149–150).

However, this violates methodological individualism. An individual who prefers outcome X may still decide, out of prudence, to do nothing on behalf of X, or even struggle against it. Just because you want Stalin to die does not imply that it is prudent to try to assassinate him. Indeed, just because you want Stalin to die does not imply that it is imprudent to be his faithful bodyguard. Perhaps Stalin pays well, and the probability of successfully assassinating him is low.

But the problem is not just that people *may* be unwilling to fight for the political outcomes they prefer. There are strong reasons to *expect* people to be unwilling to fight for the political outcomes they prefer. After all, one person has little effect on the probability that the revolution succeeds, and unsuccessful rebels face harsh punishments. As Gordon Tullock explains:

Suppose we have our common citizen in a state with an oppressive and inefficient government. Suppose also that we have a group of noble people who propose to overturn this government and set up a virtuous and efficient government. Assume that some individual believes their promises... Should he join a popular uprising? The answer in general is no, and the reason is the simple old-fashioned economic argument of a public good.

The individual will have very little effect on the outcome...It is likely that any individual joining in the revolution as opposed to remaining at home and cheering will normally make only a tiny change in the likelihood of success, perhaps improving the likelihood of success from .53278 to .53279. On the other hand, his chances of being injured are greatly increased. If he compares the benefit that he will receive from participating in the revolution with its cost to him, he's almost certain to find the payoff is negative (1987: 63–64).

For Tullock, quiescence in the face of tyranny is another example of the Prisoners' Dilemma, where individual selfishness leads to collective misfortune.<sup>7</sup> Indeed, he argues that, for practical purposes, the quality of government policy is irrelevant to the decision to rebel:

[I]ndividuals will ignore the public goods aspects of the revolution in deciding whether to participate *and* on which side to participate. The important variables are the rewards and punishments offered by the two sides and the risk of injury during the fighting (1974: 39).

The counter-intuitive implication is that a dictator can stay in power although a majority of his subjects—or even all of his subjects—prefer change. If everyone realizes that the private cost of changing things exceeds the private benefit, then no one rebels. Tullock therefore has a straightforward solution to Rothbard's "mystery of civil obedience" (de la Boetie 1975): Individuals obey because if they do not, they are highly unlikely to make a difference and quite likely to get killed.

<sup>7</sup> If successful revolutionaries punish free riders after victory, the strategic problem is more complex. The prudent strategy is then to support whichever side is expected to win, making this a coordination game rather than a Prisoners' Dilemma (Tullock 1974).



The gap between Mises and Tullock could hardly be greater. Mises expects revolution to break out once the majority decides it would be better off under a new regime.<sup>8</sup> Tullock expects revolutions to be non-existent as long as the dictator retains the loyalty of the military and does not hesitate to use force. For Tullock, the puzzle is not that revolutions are so rare, but that they happen at all.

Tullock addresses this puzzle—which he calls “the paradox of revolution”—in two main ways.<sup>9</sup> First, he argues that most alleged “popular” uprisings against tyranny were actually fights between rival elites: “I don’t want to swear that there have been no cases in history in which the people have risen and disposed of a tyrannical leader, but I have never come across a clear-cut case”<sup>10</sup> (1987: 53). Second, he admits that not everyone is as selfish as his analysis assumes<sup>11</sup>:

There are undeniably individuals with strong public interest who are willing to take great risks or sacrifice their lives to benefit other people. This is particularly true if religion can be brought in....It turns out that such people are fairly rare, however (1987: 66).

Despite these concessions, Tullock’s analysis casts serious doubt on how closely the threat of revolution constrains dictatorships. On Mises’ account, people rebel out of perceived self-interest. On Tullock’s account, people rebel only after they decide that their cause is more important than their self-interest. For Mises, economic law predicts that revolutions will follow unpopular policies.<sup>12</sup> For Tullock, economic law predicts political stability regardless of the popularity of policy; to get a revolution, you need a loophole—like rebels willing to die or leaders unwilling to kill.

One might reply that fear would not deter a majority from rebelling because the rebels could expect to win. In fact, if the majority is going to win anyway, it could use sticks and

<sup>8</sup> A slight variation on Mises’ argument is that dictators who deviate from public opinion will be overthrown not by revolution but by a coup d’état. There is some evidence that coups are more likely after recessions, but poverty per se does not seem to increase the probability of a coup (Galetovich and Sanhueza 2000). For a detailed analysis of the economics of the coup, see Tullock (1974).

<sup>9</sup> For a praxeological critique of Tullock’s paradox of revolution, see Kurrild-Klitgaard (1997).

<sup>10</sup> Mises, in contrast, tells us that “History provides an abundance of striking examples to show that, in the long run, even the most ruthless policy of repression does not suffice to maintain a government in power.” (1978:45).

<sup>11</sup> For further discussion of this point, see Hummel (1990).

<sup>12</sup> Although Murray Rothbard officially supports Mises’ position (de la Boetie 1975), he also undercuts it. In *Power and Market* (1977: 196), Rothbard pointedly denies that “a democratic election will yield *the same result as would have occurred* if the majority had had to battle the minority in violent combat.” Among other reasons, democracy ignores “inequality of *interest* or intensity of belief”:

Thus, 60% of the population may oppose a certain policy, or political party, while only 40% favor it. In a democracy, the latter policy or party will be defeated. But suppose that the bulk of the 40% are passionate enthusiasts for the measure or candidate, while the bulk of the 60% majority have only slight interest in the entire affair. In the absence of democracy, far more of the passionate 40% would have been willing to engage in a combat test than would the apathetic 60%. (1977: 197)

Note that Rothbard accepts the Tullockian premise that people often fail to fight on behalf of the policies they prefer. The difference is that Rothbard blames apathy, whereas Tullock focuses on fear, along with individuals’ low probability of tipping the scales.

carrots to short-circuit resistance and free-riding alike. Once again, however, this argument violates methodological individualism. Even if every potential rebel knows that the majority is on his side, someone still has to act first (Kuran 1995). A prudent dictatorship responds by harshly punishing first movers. By analogy, even if a majority agreed that Esperanto was the world's best language, people might not adopt it. After all, someone has to start speaking Esperanto first. The costs of non-conformity may be enough to discourage *any* individual from breaking with the herd (Schelling 1978).

### 3.2 Switching costs

Setting aside the paradox of revolution, there is another important flaw in Mises' Equivalence Theorem: It ignores switching costs<sup>13</sup> (Shapiro and Varian 1999; Klemperer 1995). Switching governments with revolution is deadly and destructive. A dictator can strategically exploit this switching cost to flout public opinion.

To see this point, suppose the majority is certain that it can overthrow the dictator but only after a bloody struggle. Suppose further that people are willing to join a revolution if they believe they will be better off, on balance, after a regime change. A dictator could still deviate somewhat from majority preferences. How? By making sure that the perceived cost of his deviations from majority preferences is less than the perceived cost of a revolution.

On a theoretical level, this point holds for any status quo. You will not change your Internet service provider just because a competitor offers you a better deal than what you already have. You will only accept the competitor's offer if the extra value exceeds the switching costs. But on a practical level, the switching costs for overthrowing a dictatorship are likely to dwarf the switching costs for Internet service providers. Suppose citizens know that they have a 10% chance of dying in the course of deposing their ruler. There would be no revolution unless most people felt that the ruler's deviation from public opinion was worse than a 10% chance of death. That is a massive switching cost—which translates into a lot of slack for the dictator.

A further implication of the switching costs argument is that, contrary to Mises, there *is* a strong reason to expect democracies to be closer to public opinion than dictatorships. As Mises himself points out, it is much cheaper to change governments with elections rather than violence. Democratically changing a government is a minor inconvenience; violently changing a government is life-threatening. The upshot: The majority will vote against the status quo once the deviation from public opinion seems worse than the minor inconvenience of a change in administration. Switching costs give elected governments a little slack, but nothing compared to the slack enjoyed by the typical dictator.

<sup>13</sup> This omission is striking because Mises was well aware of the importance of switching costs for capital investment decisions:

A new machine, more efficient than those used previously, is constructed. Whether or not the plants equipped with the old, less efficient machines will discard them in spite of the fact that they are still utilizable and replace them by the new model depends on the degree of the new machine's superiority. Only if this superiority is great enough to compensate for the additional expenditure required, is the scrapping of the old equipment economically sound. (1998a: 507–8)

I thank David Gordon for reminding me of this point.

#### 4 Salvaging the theorem

Due to collective action problems, people do not violently rebel against dictatorships just because they think they would be better off with a new leader. Even if they did, the switching costs associated with violent rebellion leave dictators with a great deal of political slack. The mechanism behind the Democracy–Dictatorship Equivalence Theorem is not strong enough to move the weight Mises places upon it.

It would be a mistake to counter that Mises correctly predicts the finding that, on average, democracies and dictatorships have very similar policies (Mulligan, Gil, and Sala-i-Martin 2004; for a contrary evidence, see Deacon and Saha 2006) and growth rates (Przeworski et al 2000; Barro 1997). Mises' position only implies that, holding public opinion constant, moving from dictatorship to democracy will not change policy. It does not imply that the average democracy will have the same policies as the average dictatorship. After all, public opinion in democracies could easily differ from public opinion in dictatorships. In fact, on Mises' view, we should expect such a difference: If public opinion is wrong-headed enough to favor dictatorship, it is likely to favor other foolish policies as well.

Still, there is one striking fact that Mises' theory can readily explain, and Tullock's cannot: When dictatorship gives way to democracy, policy changes are often small. Granted, there is intriguing evidence that the variance of growth increases after dictators' unexpected deaths (Jones and Olken 2005) and that, controlling for income and other variables, democracies have better education and health outcomes than dictatorships (Deacon and Saha 2006). However, it is still remarkable how often policies that were blamed on a dictator's whims turned out to be democratically sustainable—just as Mises would predict.

For example, there has been a strong populist backlash against free-market policies in the former Soviet bloc, and politicians with strong ties to the old regime, not to mention unrepentant Communists, have done well in democratic elections (Pipes 2004; Fessenden 2002; Gryzmala-Busse 2002; Lewis 2001; Colton 2000). Similarly, after Pinochet relinquished power in Chile, democratically elected politicians made little effort to return to the socialist policies of Allende (Velasco 1994). And much to the disappointment of democratic optimists, free elections in Palestine did not give power to politicians eager to make peace with Israel (Shikaki 2004).

If, as I have argued against Mises, dictators have considerable political slack, why don't they take greater advantage of it? There are at least three mechanisms that could account for the similarity between democratically chosen and dictatorially imposed policies.

*The stationary bandit model* Among economists, Mancur Olson's "stationary bandit" model is probably the most popular explanation for why dictators would want to mimic democratic policies (Höijer 2004; Olson 2000; McGuire and Olson 1996; for a more circumspect version of the argument, see Grossman 2000). As long as a dictator expects to remain in power for a long time, he has an incentive to do precisely what most of his citizens want: make the nation prosperous.<sup>14</sup> The dictator is like a majority shareholder in a

<sup>14</sup> Of course, if economically inefficient policies are actually popular (Caplan 2007; Caplan and Stringham 2005), then democratic and dictatorial policies will not converge. Wealth-maximizing stationary bandits will defy public opinion and choose *better* policies than democracies would.

corporation. Neither can be fired for doing a bad job. But the better the leaders do, the more valuable their “shares” become. As McGuire and Olson explain:

[T]here is a hidden hand that leads encompassing and stable interests with unquestioned coercive power to act, to a significant and surprising degree, in the interests of the entire society including those who are subject to their power. The outcome from stationary banditry is not nearly as bad as might have been supposed (1996: 94).

There are however two serious weaknesses in this story. First, a ruler’s expected tenure could easily go down as his nation’s prosperity goes up. A more prosperous nation is likely to have more contact with the outside world, undermining not only the loyalty of the public, but more importantly, the loyalty of the military and other elites. Second, the ruler of even a poor country is likely to be so rich that his marginal utility of additional wealth is low. Other motivations—like ideological purity or ordinary vanity—could easily take precedence over dictators’ desire for greater riches.

*Shared preferences* A simpler explanation for why dictatorial and democratic rule would produce similar policies is that dictators’ preferences are usually similar to those of the people they rule. They could deviate a lot more from public opinion and remain in power. Because they largely *agree* with public opinion, however, they have little motivation to deviate. After all, most dictators emerge out of the intellectual and political culture of the nations they rule. Given the human impulse to conformity (Pinker 2002; Mosca 1939), we should expect a dictator to share prevailing values and assumptions. This is especially plausible for long-standing dictatorships, like hereditary monarchies. Yet, even avowedly revolutionary movements often fall back on familiar national traditions. Richard Pipes (1974) discusses the czarist roots of Russian Communist rule at length; others (Fu 1993; Salisburg 1992) note the continuities between Deng, Mao, and the Chinese emperors who preceded them.

*Status quo bias* But perhaps reverse causation is the simplest way to harmonize policy and public opinion. There is considerable evidence (Samuelson and Zeckhauser 1988) that human beings are subject to what psychologists call *status quo bias*, a natural human tendency to prefer what we are used to.<sup>15</sup> If Mises is correct that the masses are “dull and mentally inert” (1985b: 123), *status quo bias* is precisely what we should expect.<sup>16</sup> What moral heuristic requires less effort to apply than “whatever is, is right”? Thus, if people have had a Social Security program for as long as they can remember, they are likely to believe that this program is a good idea. If people have been ruled by a dictator for as long

<sup>15</sup> A slight variation on this mechanism is that people tend to believe what their governments tell them.

<sup>16</sup> Interestingly enough, *status quo bias* is one of the pillars of Rothbard’s solution to his “mystery of civil obedience.” The main difference is that Rothbard relies on sixteenth-century French political writer Etienne de la Boetie, instead of modern psychologists; and to be fair, it is hard to improve upon La Boetie’s account:

[A]ll those things to which he is trained and accustomed seem natural to man... Thus custom becomes the first reason for voluntary servitude... [M]en will grow accustomed to the idea that they have always been in subjection, that their fathers lived in the same way; they will think they are obliged to suffer this evil, and will persuade themselves by example and imitation of others, finally investing those who order them around with proprietary rights, based on the idea that it has always been that way (de la Boetie 1975: 64–65).

as they can remember, they are likely to believe that dictatorship is a good idea—or at least better than any alternative. One might expect people who endured life under Communism to be more pro-market than those who did not, but the opposite seems to be true: Alesina and Fuchs-Schündeln (2005) actually find that East Germans are markedly more anti-market than West Germans, even controlling for income.

All this suggests that policy could drive public opinion, rather than the other way around. With sufficiently strong status quo bias, public opinion and policy will match under every form of government, just as Mises claimed. The difference, of course, is the mechanism. Instead of dictators yielding to public opinion to preempt violent overthrow, perhaps dictators do as they please, and—within broad limits—public opinion accepts their decisions on faith.

## 5 Conclusion

Mises questions the widespread view that dictatorship is less responsive to public opinion than democracy. Maybe it is less responsive in the short run, he admits; but in the long run, all dictatorship is majority dictatorship. The public can and will overthrow any government that deviates from public opinion. “People power” intimidates most dictatorships and topples the rest.

There is little reason to think that this mechanism works as well as Mises claims. As Tullock lucidly explains, joining a rebellion against even the worst government is an act of charity, not an expression of self-interest. For Mises to claim that people will rebel as soon as they realize that they would be better off under another government is simply mistaken.

Furthermore, even if Tullock were wrong, Mises would still seriously underestimate the slack that the typical dictator enjoys. Ignoring all free-rider problems, we should not expect people to rebel merely because they will be better off *after the rebellion succeeds*. Instead, we should expect people to rebel if and only if the post-revolutionary benefits exceed all the revolutionary switching costs — including, above all, a substantial risk of death.

I have previously argued that Mises' analysis of democracy was well ahead of its time (Caplan and Stringham 2005). It is hard to say the same about his analysis of dictatorship. To claim that dictators must obey public opinion to avoid violent overthrow is a gross exaggeration. To add the qualifier “in the long run” is only a small improvement. Tullock's paradox of revolution and switching costs plainly leave dictators with considerable slack.

Nevertheless, Mises has good political intuition. Unlike most social scientists, he does not expect foolish policies to be unpopular. Therefore, when dictatorships impose foolish policies, Mises is unusually open to the possibility that their policies could have passed the democratic test.

Mises' key mistake is to hastily infer that dictators *must* choose popular policies to avoid revolution. There are a number of other mechanisms that could explain why dictators and their policies would usually be popular. Perhaps dictators have a great deal of slack but decline to use it. Choosing unpopular policies might hurt economic growth, which benefits dictators and their subjects alike. Dictators might prefer popular policies because they share the values and beliefs of their subjects. More strikingly, however, dictators may be able to shape public opinion and policy. If human beings suffer from status quo bias, dictators can *make* a wide range of policies popular simply by adopting them. No matter which mechanism matters most, however, Mises' Democracy–Dictatorship Equivalence Theorem underestimates the power of the dictator.

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