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Econ 854

Week 12: Dictatorship

- I. The Stationary Bandit Model
 - A. In the minds of many, the only alternative to democracy is dictatorship.
 - B. Tullock's Question - "What's so bad about dictatorship anyway?" – highlights the fact that public choice economists have spent little energy analyzing history's *typical* form of government.
 - C. Simplest approach: Dictatorship is equivalent to democracy with a single - and perfectly decisive - voter.
 - D. All of the usual rules about democracy that hinge on low probability of decisiveness reverse:
 1. Self-interest
 2. Instrumentalism
 3. Rationality
 - E. Thus, we should expect dictators to be highly self-interested, but more interested in rationally assessing policies' actual consequences.
 - F. Will this lead to bad consequences for the dictators' subjects? According to McGuire and Olson's "stationary bandit model," not necessarily. As long as the dictator knows that he will be around for a long time, it is in his rational self-interest to encourage/allow economic development – to take a smaller slice of the pie in order to make it grow faster.
 1. Alternate perspective: Stationary bandits go to the maximum of the *long-run* Laffer curve instead of the short-run or instantaneous Laffer curve.
 - G. Remember the Tiebout model? It is basically a model of dictatorship constrained by mobile capital and labor, and under standard assumptions it yields perfectly competitive results.
 1. If the rulers of Tiebout governments were really dictators, then my arguments about non-profit competition would no longer apply.
 - H. In the real world, dictators often respond to the mobility of capital and labor by trying to make them less mobile. The Berlin Wall is the most notorious – but not the most horrific – example.
 1. However, dictators do treat mobile resources better. East Germany rarely forced tourists to become citizens, and Communist governments rarely defaulted on their sovereign debt.
 - I. Many dictators go further by making war to get more resources under their control. Why grow when you can *conquer*?

- J. Another reason for dictators to stifle growth: Growth leads to contact with the outside world and/or free thought, which tends to undermine the dictator's authority.
- II. Constrained Dictatorship and the Paradox of Revolution
- A. Very few dictatorships actually fit the "one decisive voter" model, though modern totalitarian regimes – like Stalin's USSR, the Kims' North Korea, and the last years of Hitler's Germany – come close.
 - B. Almost all dictatorships throughout history have instead been "authoritarian." The dictator has a lot of say, but at least de facto, so do many other actors. The dictator ignores them at his own risk; if he goes over the line, he risks a coup.
 - C. Most people add that at some point, an abusive dictator would provoke popular resistance.
 - D. Mises argues that this threat is so strong that dictatorships follow exactly the same policies that democracies would have! I call this his "Democracy-Dictatorship Equivalence Theorem."
 - E. Tullock, in contrast, argues that collective action problems make popular revolutions virtually impossible.
 - F. Most political observers believe in the existence of revolutions, so for them Tullock's argument creates a "paradox of revolution" – revolutions seem impossible in theory, yet they occur.
 - G. For Tullock, however, "popular" revolutions are thinly disguised battles between rival elites. The competing sides solve their collective action problems with selective incentives – better ration cards, promises of post-revolutionary jobs, etc.
 - H. Trotsky's on Tullock's side: "An army cannot be built without reprisals. Masses of men cannot be led to death unless the army command has the death penalty in its arsenal. So long as those malicious tailless apes that are so proud of their technical achievements - the animals that we call men - will build armies and wage wars, the command will always be obliged to place the soldiers between the possible death in the front and the probable one in the rear."
 - I. Watered down version of Tullock: Revolutionary movements require true believers to get off the ground, but further growth requires selective incentives.
- III. The Sociopathic Bandit Model?
- A. A major complication for economic models of dictatorship: Being dictator effectively makes someone extraordinarily wealthy. The resources of an entire nation are theirs to command.
 - B. Due to their extreme wealth, they may consume a lot of altruism, expressive considerations, and/or irrationality *despite* their high price.
 - C. Hence we see all sorts of strange behavior from dictators:
 1. Mass murder of seemingly useful subjects.
 2. Awe-inspiring parades, monuments, palaces, etc.

3. Bizarre social experiments.
 4. And... voluntary reduction to figurehead status!
- D. Modern dictators rarely accept figurehead status, but it happened all over 19th-century Europe when traditional monarchs allowed and even urged a move to “constitutional monarchy.”
1. Tullock’s explanation: The selective pressure for power-hunger is much weaker in hereditary dictatorships.
- E. On balance, then, it is hard to make definite statements about the selfishness, instrumentalism, or rationality of dictatorial versus democratic policy. It’s got to be studied empirically.
- F. The most convincing claim economic theory has to make about dictatorship: It’s a big gamble. Everything depends on the idiosyncrasies of the Leader. This makes sense in theory, and works empirically:
- G. Interesting finding #1: Average growth of dictatorships and democracies is the same, but dictatorships have more dispersion. Graph from Almeida and Ferreira (2002):

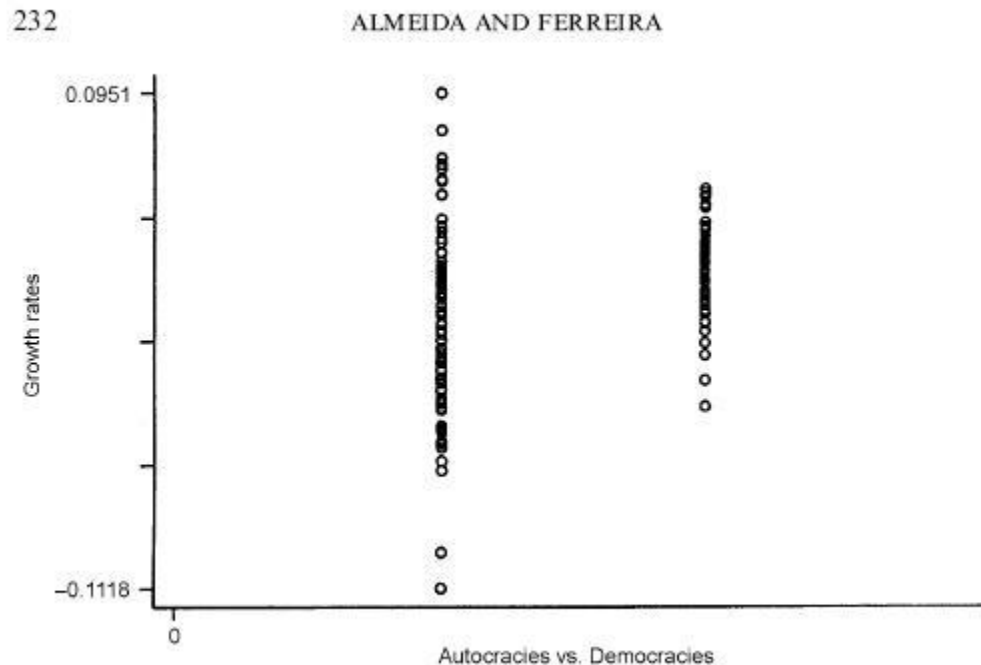


Figure 1. Growth rates for autocratic and democratic countries, 1970–1989.

- H. Interesting finding #2: When a dictator *accidentally* dies, growth rates persistently change. When a democratic leader accidentally dies, in contrast, they don’t.
- IV. Totalitarianism
- A. Political scientists distinguish between “totalitarian” and “authoritarian” dictatorships. Standard totalitarian checklist courtesy of Richard Pipes:

1. official all-embracing ideology
 2. a single party of the elect headed by a “leader” and dominating the state
 3. police terror
 4. the ruling party's control of the means of communication and the armed forces
 5. central command of the economy
- B. Since #5 is equivalent to socialism in the traditional sense of the word, many socialists object to this criterion. But it is hard to rebut Trotsky's explanation: "In a country where the sole employer is the State, opposition means death by slow starvation. The old principle: who does not work shall not eat, has been replaced by a new one: who does not obey shall not eat."
- C. One cheer for democracy: Totalitarianism has almost never been established democratically. (Semi-convincing counter-example: Hitler's Germany). It arises through civil war (USSR, China, etc.) or conquest (Eastern Europe, North Korea).
- D. A few analytical narratives on the rise of totalitarianism.
- E. A few analytical narratives on the implosion of totalitarianism.
- V. Is Totalitarianism Possible? Economic Calculation Reconsidered
- A. Austrian economists were harsh critics of totalitarianism before it existed. So was everyone sensible. The uniquely Austrian objection was that Characteristic #5 (socialism) is “impossible.”
- B. Why is socialism impossible? Mises' original argument:
1. Economic calculation (comparing the cost of different ways of doing the same thing) requires prices.
 2. Prices require some kind of market (not necessarily laissez-faire).
 3. Under socialism, there is no market, therefore no prices, therefore no calculation.
 4. Conclusion: Socialism is impossible.
 5. Note: For Mises, “impossible” means total social collapse! “[T]he attempt to reform the world socialistically might destroy civilization. It would never set up a successful socialist community.” “Socialism cannot be realized because it is beyond human power to establish it as a social system.”
- C. Many socialists replied that market socialism or faster computers would make socialism possible, but the rejoinders are obvious.
- D. My complaint: The argument is fine until the conclusion! The lack of economic calculation makes socialism more *difficult*, but difficult is not impossible.
- E. Furthermore, the economic history of socialism shows that:
1. Its biggest disasters – massive famines where millions died – were caused by bad incentives, not lack of calculation.

2. Socialist planners habitually *ignored* capitalist prices; they didn't just preserve socialism by free riding on the price system of the non-socialist world.
 3. When socialist societies wanted results, they used strong incentives and got results. See their secret police, border security, militaries, space programs, Olympic teams, and nuclear weapons.
- F. Also note: Incentive experiments in Soviet agriculture showed that it was possible to sharply raise output, but the experiments were ignored and their initiators punished.
- VI. Democratic Transitions: What Happens?
- A. One fact that Mises' Equivalence Theorem can explain, and Tullock can't: When dictatorships peacefully become democracies, policy usually doesn't change that much. Examples:
1. Strong populist back-lash against free-market policies – and election of ex-Communists (and even unrepentant Communists) – in the former Soviet bloc.
 2. Chile kept most of Pinochet's economic policies after he relinquished power.
 3. Free elections in Palestine did not lead to dovish victory.
- B. However, there are many more plausible explanations than Mises' story that dictators are fully constrained by the threat of revolution.
- C. The stationary bandit model. Stable dictators, like the median voter, benefit if their country has pro-growth policies.
1. Of course, this model isn't very convincing if you think that both kinds of governments have deeply inefficient policies!
- D. Shared preferences. Especially in long-lasting dictatorships, the dictator and the median voter come from the same basic political culture and therefore have similar preferences.
- E. Status quo bias. To a large extent, dictatorships successfully brainwash their populations to think that what is, is a pretty good idea.
1. Fascinating result: Alesina and Fuchs-Schündeln (2005) find that East Germans are markedly *more* anti-market than West Germans, even controlling for income. Living under socialist tyranny doesn't make people hate socialism.