

# Public Choice in Theory and Practice

Lecture - WS 2016/17

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Week 6 : The Economic Origins of Dictatorship and Democracy.

- *Mandatory*
  - *Acemoglu, Daron; Robinson, James A. (2006): Economic origins of dictatorship and democracy. Cambridge, New York: Cambridge University Press. Chapter 2*
- *Optional*
  - *Engerman, Stanley; Sokoloff, Kenneth (2002): Factor Endowments, Inequality, and Paths of Development Among New World Economies. Cambridge, MA: National Bureau of Economic Research.*

# Today's Focus



- Why are some countries democratic, while others are not ?
- Why do we see transitions from non-democracies to democracy and vis versa?
- Why do some democracies last while others revert back to dictatorships?
- How is this related to Public Choice ?

# Frame Work



- Society consisting of two groups, the elite and the citizens. Citizens are more numerous
- Who are the Elite? depends on the context
  - relatively rich in society (Britain and Argentina)
  - elite based on race ( South Africa)
  - elite can associated with a particular ethnic group ( Many African Nations)
  - Some cases can even be the military

# Conflict and Politics



- Frame work is related to the conflict between the elite and the citizens over politics
  - These groups will have opposing preferences over different political institutions such as democracy and dictatorship
- Why is this important?
  - The choice of different political institutions leads to different social choices
    - Such as redistribution and which groups benefit from current policies
    - Determines distribution of future political power

- Democracy vs Dictatorship
  - Democracy: *political equality*
    - “Government by the people and for the people”
    - Country is democratic if :
      - A certain political process takes place
      - Certain key institutions, such as free and fair elections, and free entry into politics, are present
  - Dictatorship : *political inequality*
    - Government represent the preferences of a subgroup of the population, in our case the elite
    - Only a small subset of actors take part in the political process

# Individual Behavior



- Individuals have well-defined preferences over outcomes or the consequences of their actions
- Thus, they evaluate various institutional options based on their economic and social outcomes
- Their preference for certain institutions is a result of the outcomes they will produce
- As in game theory individual selection of the best strategy is also effected by others.

# Individual Behavior



*“The question of universal suffrage ... is a knife and fork question, a bread and cheese question ... by universal suffrage I mean to say that every working man in the land has a right to a good coat on his back, a good hat on his head, a good roof for the shelter of his household, a good dinner upon his table” (Briggs, 1959, p. 34).*



# Politics is Inherently Conflictual



- Why?
- Policy choices create distributional conflicts
  - One policy benefits one group, while another may benefits different individuals
- Thus, different groups have conflicting preferences over policies because they may be the winner or loser.
- Focus: on social groups as key political actors as they are one of the most important forces in political conflict

# Political Power



- Given the conflicting nature of politics, whose preferences determine the policy?
- Political power: the capacity of a group to obtain its favorite policies against the resistance of other groups
- Thus, the more political power a group has, the more it will benefit from government policies and actions.

# Types of Political Power



- De Facto Political Power:
  - source of political power derived from physical strength, armies, wealth etc. ( Brute Force)
  - In the absence of law, whoever is more powerful, whoever has more brute force, will see their preferences met
- De Jure Political Power:
  - Power distribution as a result of the political system / political institutions
  - For example , the major role of democracy is its ability to allocate de jure political power wider than dictatorships

# Historical Context



- In many instances the historical transition from no democracy to democracy was accompanied by significant conflict between poorer elements of society and the rich elements
- Goal of the poor was to increase their say in the political process ( increase de jure power)
- For example Demanding Voting Rights
- Poor are more likely to achieve this demand when they have more De Facto political power
- Why?

# Theory of Democratization



- Majority of citizens want democratic institutions, since they benefit from them
- Elite want non-democracy so they can shape political decisions in their favor
- Balance of political power between the two groups determines whether the society transits from nondemocracy to democracy

# Role of Political Institutions



- Citizens not only want beneficial policies today but want insure them for the future
- De Facto Power is not insured to persist over time. (difficult to continuously threaten revolution)
- As a result in non democracy, citizen are not insured they will receive favorable policies in the future
- In non democracies there no commitment device to insure the elite adopt beneficial policies for the citizens in the future

# Role of Political Institutions



- The citizens would like to lock in the political power they have today by changing political institutions
- Strategy Citizens: Using their De Facto power today to increase their De Jure power and insure political power in the future
- Elite: Examine their de factor power and decide if repression or concessions are the optimal choice
- Revolution is costly for both sides

# Historical Example



- Prime Minister of Britain 1831
  - *“There is no-one more decided against annual parliaments, universal suffrage and the ballot, than I am. My object is not to favour, but to put an end to such hopes and projects ... The principle of my reform is, to prevent the necessity of revolution ... reforming to preserve and not to overthrow..”*(quoted in Evans, 1996, p. 223).
- The process of reform in reality was in steps and not all at once



# Democratic Consolidation



- Many countries become democratic, but eventually revert back to a nondemocratic regime as a result of a military coup.
- Democracy consolidated if the set of institutions which characterize it endure through time
- Elite: in order to change future policies in a credible way the elite need political power
- One way to do this is by Coup and in doings so they can change Dejure power

# Determinants of Democracy



- Civil Society
- Shocks and Crises
- Sources of Income and Compositions of Wealth
- Political Institutions
- The Role of Inter-Group Inequality.
- The Middle Class
- Globalization

- Democracy:
  - Credible threat of revolution from the citizens is important for democratization
  - If society is unorganized it will have a difficult time solving the collective action problem of revolution
  - The more organized a society the more credible their threat
- Consolidation:
  - Well organized civil society is necessary to protect it from a coup
  - Well organized are better suited to resist coups

# Shocks and Crises



- Democracy:
  - A short term shock may reduce the De Facto power of the elite ( economic or political crisis)
  - Such a shock can reduce the elites ability to resist change
- Consolidation
  - As with the shift to democracy, shocks can increase the probability of a successful of a coup



- Democratization:
  - Land \ agriculture: Land is easier to tax than physical and human capital. Therefore, landowners have more to fear from democracy than non-democracy
  - Industrialized : heavily reliant on physical capital , human capital and cooperation in the workplace. Political instability is a large threat to elites income
  - Feasibility of Institutions: The types institutions which are feasible is greatly effect by economic factors

# Political Institutions



- Democratization:
  - Elite will use repression to avoid democratizing when they anticipate that democracy will be harmful for their interests.
  - If the elite can shape democratic institutions to insure they maintain a large degree of their power they will be more likely to support it
  - Democratic political institutions can be structured to limit the power of the majority.

# Example



- *“Charles Beard argued that the US constitution was written by rich property holders with an eye to maintaining the worth of their assets (including one should add their slaves) in the face of likely radical democratic pressures.”*
- *“Even the notion of representative democracy, as opposed to participatory or direct democracy, can be seen as an attempt to dilute populist pressures and undermine the power of the majority”*

# Example



- *“The constitution written during the dictatorship of General Pinochet in Chile which attempted to minimize the threat of socialism in Chile by engaging in systematic gerrymandering and the under-representation of urban areas, and otherwise attempted to cement the veto of the military over democratic decision making”*



- Consolidation:
  - Institutions that place limits on pro-majoritarian policies in democracy are likely to help consolidation
  - If the elites know that democracy they will insure to insure against excessive majoritarian policies, the elite will be less willing to undertake action against democracy.

# Other Factors

- The Role of Inter-Group Inequality
- The Middle Class
- Globalization

