

POLITICAL ECONOMY





NEW

SZÉCHENYI PLAN

POLITICAL ECONOMY

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Dictatorship

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Why are we interested?

- So far: we assumed democracy
- Most of the countries of the world are no democracies.
- During most of its history, neither was the "West."
- What can we say about the workings of a dictatorship?
- Dictatorship: absolute power vested in one person. Clearly a polar case (in between: authoritarianism, oligarchy)

How does it emerge?

- Dictatorship may be at the very origin of the state.
- It may be introduced in a democracy by force (coup)...
- or by a series of legal institutional changes (1933, Germany).

What are the objectives of a dictator?

- Public welfare
- Consumption of the dictator
- Power itself
- Implementing an ideology
- Security

A model of the consumption-maximizing dictator

- National income Y depends on the amount of public goods G , so that $Y'(G) > 0$, $Y''(G) < 0$.
- The dictator levies t , which affects *realized* income thus: $Y_r = Y(1 - \eta t)$.
- The dictator divides revenue between public goods and personal consumption: $tY_r = G + C$.
- *He maximizes $C = tY(1 - \eta t) - G$ in t and G .*
- From the two FOCs, we obtain:
 $Y'(G) = 1/t$ and $t = 1/(2\eta)$.
- This latter would also obtain from maximizing tY_r , the Leviathan model.

A model of the consumption-maximizing dictator

- What would be the social optimum?
- Maximizing: $Y(1-\eta t)-G$ in t and G , so that :
 $tY_r = G$
- ...
- Which one will result in higher G in optimum?
- Compare the two objective functions, bearing in mind that Y is concave, that $(1-\eta t)$, and that $t < 1$:

A more general model

- The dictator's utility depends on: $U(C, P, S)$ that is, on C (consumption), P (power), and S (security)
- The latter two $P(L, R)$, $S(L, R)$ are affected by loyalty as a function of after tax income: $L(Y_T)$, $L' > 0$, $L' < 0$ and repression as a function of tax resources spent on it: $R(T_R)$, $R' > 0$, $R' < 0$.
- Assumed first and second partial derivatives:
- $\delta P / \delta L > 0$, $\delta^2 P / \delta L^2 < 0$, $\delta P / \delta R > 0$, $\delta^2 P / \delta R^2 < 0$, $\delta S / \delta L > 0$, $\delta^2 S / \delta L^2 < 0$, $\delta S / \delta R > 0$, $\delta^2 S / \delta R^2 < 0$,
- The dictator maximizes U by picking C and T_R so that
- $Y_T = Y - G - C - T_R$

More general model

$$\frac{\partial U}{\partial C} = \frac{\partial U}{\partial C} - \frac{\partial U}{\partial P} \frac{\partial P}{\partial L} - \frac{\partial U}{\partial S} \frac{\partial S}{\partial L} = 0 \quad (18.8)$$

$$\frac{\partial U}{\partial T_R} = -\frac{\partial U}{\partial P} \frac{\partial P}{\partial L} + \frac{\partial U}{\partial P} \frac{\partial P}{\partial R} R' - \frac{\partial U}{\partial S} \frac{\partial S}{\partial L} + \frac{\partial U}{\partial S} \frac{\partial S}{\partial R} R' = 0. \quad (18.9)$$

Rearranging (18.8) we get

$$\frac{\partial U}{\partial C} = \frac{\partial U}{\partial P} \frac{\partial P}{\partial L} + \frac{\partial U}{\partial S} \frac{\partial S}{\partial L}. \quad (18.10)$$

$$\left(\frac{\partial U}{\partial P} \frac{\partial P}{\partial R} + \frac{\partial U}{\partial S} \frac{\partial S}{\partial R} \right) R' = \frac{\partial U}{\partial P} \frac{\partial P}{\partial L} + \frac{\partial U}{\partial S} \frac{\partial S}{\partial L}. \quad (18.11)$$

Consider tinpots, totalitarians, a rise in assassination risk (increase in $\delta U/\delta S$) or income (a drop in L).

Specific transfers to groups

$$\begin{aligned}
 S = & n_1[\alpha_1 U_1(Y_1 + s_1) + \beta_1 R(T_{R1})] + n_2[\alpha_2 U_2(Y_2 + s_2) + \beta_2 R(T_{R2})] \\
 & + \dots + n_i[\alpha_i U_i(Y_i + s_i) + \beta_i R(T_{Ri})] + \dots + n_m[\alpha_m U_m(Y_m + s_m) \\
 & + \beta_m R(T_{Rm})]
 \end{aligned} \tag{18.14}$$

Maximize S in s_i and T_{Ri} , so that:

$$\sum_{i=1}^m n_i s_i + \sum_{i=1}^m n_i T_{Ri} = 0. \quad \text{and}$$

if $s_i < 0$, then $|-s_i| \leq Y_i$, and $T_{Ri} \geq 0$, for all i .

FOCs:

$$\alpha_i U'_i = \alpha_j U'_j = \beta_k R' = \beta_h R'. \tag{18.16}$$

Further considerations

The dictator's dilemma: A trade-off between power over citizens and the ability to elicit preferences

The lifecycle "theory" of dictatorships.
Why the decline at the end?
bureaucratization, rent seeking,
horizontal exchanges,...

The relative economic performance of dictatorships

- What does theory say: mixed mechanisms.
- Problems of measurement, esp. the difference between "democratic" (political rights) and "liberal" freedoms (civil liberties). Within the latter, "economic" freedoms.
- E.g. the Freedom House measures:
- <http://www.freedomhouse.org/template.cfm?page=363&year=2010>
- Issues related to the life-cycle hypothesis of dictatorships
- Issues related to the heterogeneity of dictatorships
- Issues of endogeneity (what causes what?)
- Empirical results are, well, not conclusive. E.g. Barro 1996.