

# POLITICAL ECONOMY

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## Week 11

# Dictatorship

## 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.
- 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

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

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

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

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.