

Recensione del volume:

Economic Origins of Dictatorship and Democracy [◇]

ACEMOGLU D. - ROBINSON J.A.

Sergio Ginebri*

Università degli Studi del Molise, Campobasso

The purpose of the book is to investigate the determinants of political institutions. Namely, the question to be answered is: why is it that some countries are democracies, whereas other countries are not? The analysis builds on a large literature on emergence, consolidation, or collapse of democracy. However, that literature mostly falls within the fields of political science and sociology. On the contrary, the book is written by two economists and it adds to the recent but growing literature on the economics of politics. Acemoglu and Robinson aim at providing an unified analytical framework to understand the creation and consolidation of democracy. The purpose of providing an unified theoretical model is, by itself, innovative. In effect, in the mainstream of political science literature on regime transitions the lack of a theoretical framework is even celebrated. For instance, Huntington (1991) lists twenty seven different factors promoting democracy. However, the causal mechanism linking particular putative causes to outcomes is unclear.

The analytical instrument used by Acemoglu and Robinson in developing their model of regime transition is the theory of complete information games. The most relevant contribution of the book, however, is not the use of game theory. Several papers in political science have analysed the transition to democracy

[◇] Cambridge University Press, Cambridge, 2006.

* <ginebri@unimol.it>.

within a game theoretical framework. What makes Acemoglu and Robinson's model innovative is its economic approach. By this term, they mean that individuals are assumed to have well defined preferences over the consequences of their actions. For instance, they prefer more income to less. As a consequence, the individuals evaluate different political regimes according to the consequences that each regime has on their individual income. This makes a great difference with respect to previous contributions, where the fundamental preferences of the individuals are not clarified and the attitude of individuals or of social groups in favour or against democracy is posited by assumption.

Building Blocks of the Theoretical Model

In other words, the political economy model put forward has well defined micro-economic foundations. However, this innovative and valuable feature of the model is reached at a cost. The cost consists of a brutal simplification of the analytical framework. In the workhorse model, the choice between democracy and dictatorship, or generally speaking nondemocracy, is conceived as the result of a struggle between two opposite social groups: the *elites* and the citizens. The citizens are the majority of population, they are the poor and, consequently, they favour redistributive taxation. The *elites* are the rich and they are opposed to redistributive taxation. In summary, any policy choice brings about a redistributive conflict between the two groups and policy choices are determined by the balance of power between the two conflictual groups.

The political power of the groups, therefore, plays the key role in the plot. Political power is the ability of a group to obtain its favourite policies against the resistance of the other group. Its nature is regarded as being twofold. There are two different types of political power: *de jure* and *de facto*. *De facto* political power is what a group can do to other groups and the society at large by using force. The citizens can have political power in nondemocracy if they pose a credible threat of revolution or significant social

unrest. Symmetrically, in democracy the *elites* can gain political power by supporting or sponsoring a military takeover, a coup. *De facto* political power has, in turn, two main features: first, both coups by the *elites* and revolutions by the citizens have relevant social costs. Any violent takeover imposes a loss of welfare to all the members of society. Second, *de facto* political power is transitory. Revolutionary threat from citizens, for instance, requires the juxtaposition of many unlikely factors: the masses need to coordinate their moves and to solve a collective-action problem; furthermore, they need to find the *momentum*; finally, the *elites* should be unable to use the military to effectively suppress the uprising. Therefore, *de facto* political power may be gained today, but it can be easily lost tomorrow.

The transitory nature of *de facto* political power makes room for the role of political institutions. Political institutions allocate *de jure* political power. In a nutshell, nondemocracy is the political regime where the *elites* make the policy decisions. This means that in nondemocracy policies will reflect the preferences of the *elites* and, therefore, taxes will generally be lower and the redistribution of income from the rich to the poor will be limited. On the contrary, democracy is the government by the people for the people. The majority of the population is allowed to vote and the government is supposed to represent the preferences of the whole population. Therefore, in democracy taxes are generally higher and income redistribution is larger. To put it briefly, democracy approximates a situation of political and economic equality relative to nondemocracy, which corresponds to a situation of political and economic inequality.

The crucial feature of political institutions is that they are durable by their nature; that is, they are likely to persist in time. In other words, policies are easier to reverse than institutions. This means that political institutions regulate the allocation of *de jure* political power in the future by virtue of being durable. Therefore, their role is fundamental in a world where individuals care not only about policies today but also about policies tomorrow and fight for political power. And the durable nature of political institutions plays a central role in the game theoretical model of

transition to democracy put forward by the book. That model relies on three building blocks. Till now, two of them have been mentioned: the micro-economic foundations of individual preferences for policies and political institutions; the struggle for power implied by any policy decision. The third building block of the model is the following: the durability and the ability to influence the allocation of power in the future make institutions valuable as a commitment device in the game for political power. The basic idea of the book is that democracy is used by the *elites* as a credible commitment to avoid revolution.

Transition to Democratization and its Consolidation

The theory of democratization put forward by Acemoglu and Robinson can be summarized as follows: the citizens prefer democracy because the majority rule guarantees the level of redistribution they prefer. On the other hand, the elites prefer nondemocracy because it reflects their preferred level of redistribution. However, the struggle on democracy is not just a veil under which the fight for income redistribution takes place. Political institutions do not play only the role of being an intermediate step in the struggle for redistribution of income. Given that individuals care about present and future policies, transition to democracy emerges as a way of regulating the future allocation of political power. Faced with the threat of a revolution, the first option for the *elites* is to give citizens what they want today. If this is not sufficient, the promise to concede the same policies tomorrow is not credible. Tomorrow the threat of revolution may be gone and the *elites* would prefer to renege on their promises. On the contrary, transition to democracy shifts *de jure* political power to the citizens, thereby creating a credible commitment to future pro-majority policies. A further alternative for the *elites* would be to use force and repression. Nevertheless, repression is both costly and risky for *elites*. Democracy arises when concessions are not credible and repression is not attractive because it is too costly.

To sum up, democracy arises as the solution to a commitment problem, caused by the potential de-coupling between the beneficiaries of redistribution policies, the citizens, and the identity of those holding political power, the *elites*. Theoretically, there are three potential way to deal with commitment problems: contracts, repeated transactions, changing the identity of who gets to make the decision. Problems with contracts are unsurpassable when the political arena is concerned. In effect, there is no third party who is going to enforce the contract. Suppose that in nondemocracy the *elites* sign a pledge to carry out redistribution policies tomorrow. When tomorrow comes, the *elites* still detain the power and there is no external power that can enforce the contract. The second possible solution to commitment problems is repeated game interactions. In a repeated interaction the *elites* would compare the cost of abiding by the promise of redistribution and the cost of the punishment by the citizens, represented by social uprising and revolution. If the cost of punishment is not enough large, the *elites* would renege on their promise even within the framework of repeated interactions. This means that repeated game interaction might be helpful but often falls short. Therefore, the unique available solution to completely solve the commitment problem is changing the identity of who has political power, so that there is no longer a decoupling between the beneficiary of the policy and the identity of the group holding political power.

Once created, democracy does not necessary consolidate. The *elites* can support or sponsor a coup to gain back *de jure* political power. The logic underlying coups is similar to that underlying democratization. Political turbulence and the alignment between the interests of the *elites* and those of military might give the *elites* the opportunity to change policies. However, *de facto* political power is transitory. To change future policies in a credible way, the *elites* need future political power. A coup is their way of increasing *de jure* political power. Therefore, the analytical framework allows for potential switches between democracy and nondemocracy. Furthermore, the distinction between fully consolidated and semi-consolidated democracies is introduced. In a fully consolidate

democracy, the coup constraint is not binding. This means that the coup imposes a cost on the *elites* larger than the advantages of gaining back *de jure* political power. On the contrary, in a semi-consolidated democracy the citizens would choose the policies preferred by the *elites* in order to prevent coups.

Implications and Extensions of the Model

The unified model of transition to democracy can be used to investigate, on one side, how the conclusions of the analysis are affected by changes in its parameters, on the other side, the consequences of possible extensions of its basic structure. In what follows a list of the implications of the model is presented. First, when civil society is undeveloped and the citizens are not organized, the threat of revolution is less binding and transition to democracy may be avoided by the *elites*. On the contrary, when civil society is relatively developed and majority is represented by political and social organizations, repression may be more difficult and coups are more costly. Second, democratizations and coups are more likely to arise in a situation of economic or political crisis, when the collective-action problem is easier to solve. Third, the source of income for the *elites* and the composition of wealth significantly impinge on the cost and benefits of democratization, repression and consolidation. Land is easier to tax than physical or human capital, and this makes landowners more averse to democracy. Furthermore, social and political turbulence are more damaging to physical and human capital owners, which have to rely on cooperation in the workplaces. This means that the cost of revolution and of coups is higher in a more industrialized society. This makes democratization more likely in a more industrialized society, where the wealth owned by the *elites* is mainly invested in physical and human capital. This conclusion is consistent with modernization theory in political science. Lipset (1959) argues that democracy emerges in society as it modernizes.

Fourth, greater inequality between the poor and the rich makes revolution more attractive for the citizens and the threat of

revolution more effective. Since the threat of revolution is a key factor in the process of democratization, democratization should be more likely in more unequal societies. Furthermore, inequality can contribute to democratization by making redistribution policies in nondemocracy insufficient. On the other hand, inequality between the poor and the rich may affect the aversion that the *elites* have to democracy. More inequality increases redistribution policy and the burden of democracy on the *elites*. Therefore, repression and coups become more attractive. In summary, the relationship between inequality and the likelihood of transition to democracy is nonmonotonic. Transition to democracy is more likely when society shows an intermediate level of inequality. On the contrary, transition to democracy becomes unlikely either when inequality is very low, or when it is very high. In addition, greater inequality, by increasing redistributive policies, is likely to destabilize democracy, because it makes coups more attractive to the *elites*.

The implications previously presented stem from the basic configuration of the model. Other interesting implications can be derived by extending the basic model. The first extension has to do with a less simplified representation of social conflict. The dichotomy between the citizens and the *elites* is admittedly brutal. The representation of society can be enriched by assuming the existence of an intermediate group between the poor and the rich. As the middle class is brought into their framework, a range of interesting results is obtained. The most remarkable conclusion is that the presence of a large and relatively affluent middle class ensures that in democracy the median voter will be a member of the middle class and will support policies much closer to those preferred by the *elites*. Therefore, a large and affluent middle class may act like a buffer between the *elites* and the citizens. As a result, democratization becomes more attractive for the elites than repression.

The basic model can be additionally extended by considering an open economy. Within this new framework it comes out that globalization might contribute to democratization. In effect, international financial integration means that capital owners, the *elites*, can more easily take their money out of a given country.

This makes it more difficult to tax the *elites* and reduces the extent to which democracy can pursue highly majoritarian policies. This reduces the burden of democracy for the *elites* and discourages them from using repression. As a consequence, democratization becomes more likely. On the other hand, globalization comprises an extension of international trade. As international trade increases, the rewards of the relatively abundant factor in each country are relatively augmented. The impact of this on the transition to democracy is ambiguous and it depends on the situation experienced by country before the process of globalization. Remember that transition to democracy is more likely when society shows an intermediate level of inequality. On the contrary, transition to democracy becomes unlikely either when inequality is very low, or when it is very high. Now, if a country started from a situation of high inequality and the abundant factor is labour, then opening country to international trade could favour the transition to democracy, because, according to Heckscher-Ohlin analytical framework, it reduces inequality. On the contrary, if a country started from an intermediate level of inequality and the abundant factor is land or capital, then democracy could be hindered by globalization, because opening country to international trade increases inequality.

In summary, the model of transition to democracy and democracy consolidation casts new light on two main dimensions of the analysis: economic inequality between the citizens and the elites, and the costs of revolution and counter-revolution. From this perspective, the contribution by Acemoglu and Robinson is, admittedly, close to the one by Dahl (1971). Dahl argues that incumbents will democratize when either the cost of tolerating the opposition falls, or the costs of suppression becomes too high. Therefore, democracy arises when power is widely distributed, that is when society becomes pluralistic.

Inertia of Political Institutions and Tyranny of the Majority

The book by Acemoglu and Robinson is remarkable and

challenging. It is well organized and it can be easily read and understood also without having a sound game theory knowledge. Furthermore, it provides useful historical evidence on transition to democracy, its evolution and consolidation. Namely, it puts forward a useful typology of political development, composed of four main paths. Moreover, it presents empirical evidence on how democracy is related to inequality, education, tax pressure. Finally, it clearly sketches the linkages between its approach and the political science literature. Future research on transition to democracy and democracy consolidation will consider the contribution by Acemoglu and Robinson as a benchmark.

One of the issues that future research should develop and elaborate is the following: the model relies on the basic idea that democracy plays the role of a commitment technology. But why the creation of democracy acts as commitment when we know that democracy often collapses? And, what is more, why do institutions provide commitment at all? The previous two questions are raised also in the book. However, the answers are not completely convincing. Acemoglu and Robinson argue that democratic institutions have a tendency to persist, a sort of *inertia*, because people make specific investments in them by developing political parties, trade unions. The creation of these organizations, specific to democracy, makes it easier to solve the collective-action problem once they have been created. Moreover, once democracy has been created, the majority may have a greater control over the military.

These justifications of the commitment power of democracy are reasonable. However, they are not connected with the structure of the model, they are imposed over the model. In other words, the commitment power of democracy does not have micro-economic foundations in the model, although it plays a key role in it. Furthermore, in the game theoretic model the persistence of institutions boils down in a hypothesis on the probability of a coup which is not completely consistent with the justifications previously mentioned. In solving the Markov perfect equilibrium of the game, the probability of a coup is assumed to be zero in the period following transition to democracy. After two periods

from transition, that probability jumps back to a positive value. Now, the time profile of the probability of coup seems to be not consistent with the story about the development of parties and trade unions that makes it easier to solve the collective-action problem for the citizens. In effect, the development of those institutions takes time. Therefore, the probability of a coup could be higher just after the transition to democracy, when those institutions are just born, and then it could gradually decrease. This means a time profile that is opposite to the one assumed in solving the equilibrium of the game.

An alternative justification of the persistence of democracy could be developed by elaborating on the issue of legitimacy. Linz (1978) argues that democracy collapses because it loses legitimacy, that is because of a failure of democratic politicians to solve political problems. Furthermore, Weingast (1997) and Przeworski (1991) claim that for democracy to be stable all groups must have a sufficient chance of wielding power. Rueschmeyer, Stephens, and Stephens (1992) write that democracy can be consolidated only where there are two or more strong competing political parties and at least one of them effectively protects dominant classes. In contrast, in the basic model the *elites* can never win power in democracy and this represents a strong drawback of the model. In the basic model tyranny of the majority somehow applies. The representation of democracy in the model is perhaps too simple and the oversimplification forces the authors to introduce the strong hypothesis of democracy as a commitment technology.

Actually, an extended version of the model contains a new variable, which represents the power of the elites in democracy. However, this new variable is admittedly *ad hoc*. Future research could concentrate the attention on different typologies of democracy and analyse the relationship between legitimacy and the specific features of democracy. More generally, the sustainability of democracy could be linked to the underlying characteristics of the economy. In this perspective, an interesting contribution can be found in Benhabib and Przeworski (2006). In addition, the need for further research on the role of the elites in democracy is pointed by the empirical evidence on the relationship

between inequality and redistribution. Although most of the political economy models in the literature, comprised Acemoglu and Robinson's one, predict that greater inequality leads to greater redistribution in democracy, Perotti (1996) finds that tax revenues and transfers as a fraction of GDP are not higher in more unequal societies.

BIBLIOGRAPHY

- BENHABIB J. - PRZEWORSKI A., «The Political Economy of Redistribution under Democracy», *Economic Theory*, vol. 29, no. 2, 2006, pages 271-290.
- DAHL R.A., *Polyarchy: Participation and Opposition*, New Haven, Yale University Press, 1971.
- HUNTINGTON S.P., *The Third Wave: Democratization in the Late Twentieth Century*, Norman, University of Oklahoma Press, 1991.
- LINZ JUAN J., *Crisis, Breakdown and Re-Equilibration*, Baltimore, Johns Hopkins University Press, 1978.
- LIPSET SEYMOUR M., «Some Social Prerequisites for Democracy: Economic Development and Political Legitimacy», Washington, *American Political Science Review*, vol. 53, no. 1, 1959, pages 69-105.
- PEROTTI R., «Growth, Income Distribution and Democracy: What the Data Say», *Journal of Economic Growth*, vol. 1, no. 2, 1996, pages 149-187.
- PRZEWORSKI A., *Democracy and the Market*, New York, Cambridge University Press, 1991.
- RUESCHEMEYER D. - STEPHENS E.H. - STEPHENS J.D., *Capitalist Development and Democracy*, Chicago, University of Chicago Press, 1992.
- WEINGAST B.R., «The Political Foundations of Democracy and the Rule of Law», *American Political Science Review*, vol. 91, no. 2, 1997, pages 245-263.