Coups, revolutions and efficient policies in autocracies

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ABSTRACT

The purpose of this paper is to explore the interaction of two mechanisms that might constrain the power of dictators: the threat of a coup by the selectorate and a revolution by citizens. Our results help explain a stylized fact, namely that autocracies are far more likely to be either the best or the worst performers in terms of growth and public goods policies. To this end, we focus on account-ability within dictatorships using a model where both the selectorate and the citizens are the principals and the autocrat is the agent. Our results highlight that both excessively strong and excessively weak dictators lead to poor economic performances, and that a balanced distribution of de facto political power is required to incentivize the dictator to choose efficient economic policies.

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1. Introduction

A striking fact is that there are many economically efficient autocracies and many very inefficient autocracies (Besley and Kudamatsu, 2008). A few examples illustrate this point. By 1975, Spain's per capita income was eight times as large as it had been in 1945; China's per capita income has increased 16 times from 1979 to the present; Malaysia, Singapore, Taiwan, and South Korea achieved growth rates of over 10% per year when under the control of dictators. However, some of the worst economic catastrophes also occurred under dictatorial regimes. Zambia witnessed its average income fall from 1964 to 1991; the economic disaster in North Korea led to millions of people suffering starvation; in Zaire, the economy collapsed after Mobutu seized power. More generally, over 20% of all observations of autocratic countries show negative growth rates, and during the tenure of a single dictator, the annual growth rates range from -11.85 to $+25.03\%$ (Rodrik, 1997; Almeida and Ferreira, 2002; Gandhi, 2008; Jones and Olken, 2005). This stylized fact calls for an explanation that we believe can be developed by analysing how political arrangements shape policy outcomes within autocracies.

In our previous work, we examined how threats of coups by the selectorate (Gilli and Li, 2013) or of revolutions by the citizens (Gilli and Li, 2014) incentivize dictators to choose policies that lead to highly heterogeneous economic performance. In this paper, we provide a more complete, detailed account of the interaction of these two threats and of the influence that they have on policy choices. Coups simply reshuffle "deck chairs" within the elite, whereas revolutions entail dramatic regime changes. Regime change is the worst possible outcome for dictators and the selectorate. In this new strategic setting, the selectorate decides to engage in a coup by considering the effects this decision will have on the probability of a revolution. Such strategic interplay between coups

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and revolutions offers a novel perspective. We find that a dictator implements efficient policies because of the strategic complementarity between the threats of coups and revolutions. The threat of coups can force the dictator to implement efficient policies because she is afraid of being overthrown (Gilli and Li, 2013). However, coups occur because the selectorate fears revolution. This role of coups as a strategic complement to revolutions is a new insight. It enriches the selectorate theory and its explanatory power. We also find that the threat of both coups and revolutions have non-monotonic effects on the dictator's incentives because they only deter a dictator from implementing inefficient policies within some range of parameters. However, when the cost of a revolution is very small, coups and revolutions become inevitable. Then, the dictator and the selectorate anticipate that no policy choice can deter a revolution. This rational expectation eliminates the dictator's incentives to implement efficient policies, and the country falls into instability; inefficient policies will prevail.

The paper proceeds as follows. In Section 2, we examine the literature related to our research, highlighting the important insights gained from it and drawing attention to the gaps our contribution aims to fill. In Section 3, we introduce and discuss our model, which is analyzed in Section 4. Section 5 concludes the paper with a brief discussion. Calculations are reported in the Appendix A.

2. Related literature

Our paper builds on the growing literature on the inner working of authoritarian political institutions. In this literature, some focus on the threat of coups by the selectorate (Bueno de Mesquita et al., 2003; Besley and Kudamatsu, 2008; Egorov and Sonin, 2011; Svolik, 2009, 2012; Gilli and Li, 2013). Others focus on the threat of revolution by the citizens (Acemoglu and Robinson, 2006; Svolik, 2013; Aidt and Jensen, 2014; Gilli and Li, 2014; Dorsch and Maarek, 2015). However, to the best of our knowledge, the strategic interaction between coups and revolution has not been the specific focus of any paper. Our starting point is that no dictator rules alone. Even the most oppressive dictators need the support of key backers. Bueno de Mesquita et al. (2003) refer to these key backers as the 'selectorate', concluding that a larger size of the selectorate is associated with a higher level of public goods provided by the government. Svolik (2009, 2012) refers to these key backers as the 'ruling coalition'. This literature, typically, assumes that all dictators share the same primary goal: to hold on to office at all costs because failing to do so will result in imprisonment, exile, or execution. Revolutionary challenges to the political systems they rule over and the loss of support among their core constituencies are the two main threats that all dictators face. This is the underlying reason why coups and revolutions are so important in shaping a wide variety of economic and political outcomes in autocratic regimes.

Based on this logic, there are two types of accountability mechanisms in autocracies (Gandhi and Przeworski, 2006). We combine them in a single model, connecting accountability in dictatorships to specific parameters. A dictatorial regime is represented by two de facto power parameters, the effective size of the selectorate (ϕ) and the cost of revolution (μ). We follow the modeling strategy of Besley and Kudamatsu (2008) and Gilli and Li (2013), modeling autocratic politics as an incomplete information game. In this framework, the dictator's incentive to build her reputation works as an incentivizing mechanism. However, a difference from the above papers is that we introduce a further player—the citizens—who are politically active but disenfranchised agents.

The introduction of the citizens into the model is important because dictators and the selectorate react to credible threats of revolution by the citizens. Since the seminal work by Acemoglu and Robinson (2006), the role of revolutionary threats has been central for explaining democratization. Using a dynamic game, Dorsch and Maarek (2015) show how political accountability can be enforced through the threat of revolution. Aidt and Jensen (2014) provide rigorous empirical evidence to show that the extension of the voting franchise in Europe was related to the threat of revolution. Evidence also reveals that the threat of revolution by citizens influences public goods provision (Li, 2014) and power sharing (Svolik, 2013) in authoritarian states. However, in many of the existing models, the probability that revolution succeeds is an increasing function of the amount of public goods provided by the autocrats (Gandhi and Przeworski, 2006; Bueno de Mesquita and Smith, 2010). Following Gilli and Li (2014), we assume that the provision of public goods by the dictator is instead a costly signal of her type, and the success technology is a linear function of the proportion of potential revolutionaries. A further difference from the model in Gilli and Li (2014) is that we leave the last move in the stage game to the citizens to model the idea that they are a player of last resort, whereas the selectorate has a watchdog role. This structure highlights the strategic complementarity between the threats of coups and revolutions.

On a more general level, our paper can also be related to the literature on political instability and growth (Jong-A-Pin, 2009; Jong-A-Pin and Yu, 2010). On the one hand, political instability is detrimental to economic growth (Alesina et al., 1996; Darby et al., 2004). Too many coups make the regime vulnerable to 'coup traps' (Londregan and Poole, 1990), whereas too many revolutions may induce too much expenditure on the military (Blomberg, 1996). On the other hand, when a dictator faces too few threats to their survival in office, she abuses her power (Linz and Chehabi, 1998; Geddes, 1999). Our paper contributes to this literature by providing a new explanation for why too little or too much political instability is harmful.

3. The model

Consider a two-period political-agency model with incomplete information played by three protagonists: the dictator, the selectorate, and the citizens. Contrary to standard political-agency models for democracies (Besley, 2006), there is no regular general election; hence, the dictators' term might be indeterminate. However, dictators can be removed from office by the selectorate through a coup or by the citizens through a revolution. Thus, dictators face two basic problems of governance: first, they need the cooperation of the selectorate and, second, they need to avoid a revolution. When dictators face credible threats by citizens or by the selectorate, they are pressed to choose efficient economic policies instead of appropriating private benefits. However, dictators differ in their ability to control the selectorate and repress the citizens. To model this institutional difference, we introduce two separate conflict