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Growth-friendly dictatorships

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ABSTRACT

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This research argues that in highly unequal societies, a rent-seeking and self-maximizing dictator may be supported by a fraction of the population, despite the absence of special benefits to these societal groups. Importantly, it is the stakes of the dictator in the economy, in the form of capital ownership, that drive the support of individuals. In highly unequal societies ruled by a capital-rich dictator endowed with the power to tax and appropriate at will, the elites will support dictatorial policies given that they can generate higher growth rates than the ones obtained under democracy. This support arises unconditionally to special benefits to the elites and despite the total absence of checks and balances on the dictator. *Journal of Comparative Economics* **43** (1) (2015) 98–111. Department of Economics and Related Studies, University of York, United Kingdom & LICOS, KU Leuven, Belgium; University of Luxembourg, Faculty of Law, Economics and Finance, Luxembourg; University of Portsmouth, Department of Economics & Finance, United Kingdom.

1. Introduction

Unlike democracies, dictatorial regimes centralize the powers in the hands of a single and often corrupt ruler, whose survival hinges on the support of particular societal groups. Accordingly, the policies implemented under dictatorships respond to the incentives of a limited number of individuals, at the expense of the rest of the population.

Despite this misalignment of incentives, dictatorships have recurrently been observed throughout history since the potentially dissatisfied masses often prove unable to translate their disagreement into an effective threat to the central regime. In 2010, one could discern 29 highly authoritarian regimes (negative polity IV score) controlling the lives of more than 2 billion people. Understanding the mechanisms that explain support of societal groups for dictatorships is a challenging task.

This research argues that in highly unequal societies, a rent-seeking and self-maximizing dictator may be supported by a fraction of the population, despite the absence of special benefits to these societal groups. Importantly, it is the stakes of the dictator in the economy, in the form of capital ownership, that drive the support of individuals. In highly unequal societies ruled by a capital-rich dictator endowed with the power to tax and appropriate at will, the elites will support dictatorial policies given that they can generate higher growth rates than the ones obtained under democracy. This support arises unconditionally to special benefits to the elites and despite the total absence of checks and balances on the dictator. The sup-

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port for a dictator is decreasing with the degree of equality in the economy. As a consequence, in mildly unequal societies dictators will adopt more popular policies (less rent seeking and more redistribution) in order to expand their support base, and thereby to contain the risk of transition to democracy.

To unveil the purely economic incentives associated with the support for a dictatorial regime, this research builds on Alesina and Rodrik's (1994) seminal work. In our paper democracy is modeled as in their framework. Namely, the government implements the median voter's preferred policy which can yield inefficiently low growth rates because of the median voter's incentives to implement an over-redistributive policy. We amend Alesina and Rodrik's (1994) model by grafting a self-interested dictator who is entitled to extract any fraction of the tax proceeds he wishes.[1] The dictator then redistributes the tax proceeds net of extraction to the whole population under the form of a productivity augmenting public good. When implementing his policy, however, the dictator lives under a political survival constraint so that dissatisfied citizens will contribute to the democratization of the country.

This simple framework allows for a direct comparison between democracies and dictatorships. When self-interested dictators have strong vested interests in the country's economy, they have incentives to stimulate the economy. This, in turn, grants the dictator the support of a share of subjects who prefer the authoritarian option to the alternative of a democratic polity, that delivers lower growth rates. The dictator's vested interests and the support he collects from some of his subjects are therefore strategic complements, thus implying that more support *or* more capital owned by the dictator are conducive to higher growth rates and to securing the long run survival of dictators.

The contribution of this research lies in describing the fundamental economic incentives behind the support for a dictatorship. We show that in societies featuring a high concentration of capital, and provided the ruling body has high stakes in the economy, part of the capital owners value dictatorship more than democracy. We argue that the persistence of some dictatorships can be rooted in the substantial backing of wealthy capital owners. Since different regimes have different implications for growth, our work suggests that the relationship between capital distribution and growth is both affected and affects the endogenous emergence of political institutions.

1.1. Theoretical contribution

Our study contributes to two broad research questions.

First, we enrich the literature investigating the links between political systems and economic performance. Early on, Alesina and Rodrik (1994) and Persson and Tabellini (1994) established in parallel that unequal societies may constrain economic growth because of the median voter's excessive willingness to redistribute wealth through high levels of taxation when the latter is poorly endowed in capital. These theories therefore predict that in democracies economic growth is an increasing function of the median voter's wealth levels. These models integrally focused on democratic regimes, thus disregarding the consequences of a dictatorial rule. Olson (1993) argues that long-lived dictators with vested interests in the economic performance of the country (i.e. stationary bandits) promote economic growth compared to short lived dictators (i.e. roving bandits). Building on Olson's (1993) work, McGuire and Olson (1996) and Niskanen (1997) compare the economic performance of democracy and dictatorship. Both articles cast aside the question of the endogenous survival of regimes, and both conclude that because of the rent-seeking activity of the dictator, the democratic regime will always outperform the dictatorial one. Our contribution views the survival of dictatorial regimes as an endogenous process that depends on the citizen's support, and the core finding of the paper points at the growth-enhancing nature of some dictatorships. Two recent studies reach similar conclusions to McGuire and Olson (1996) and to Niskanen (1997) even when considering benevolent autocrats (Shen, 2007; Gradstein, 2007). Studying elitist dictatorial regimes, Lee (2003) shows that when higher tax rates imply lower growth rates, dictatorship always produces lower economic performance than democracy. Besley and Kudamatsu (2008) mainly focus on dictatorial regimes, but do compare democracies to dictatorships and derive the conditions making the latter more preferable in terms of economic growth. Yet, in Besley and Kudamatsu (2008) democracy is conceptualized as the population voting over a dictator and allowing him to appropriate public funds, rather than having checks and balances forbidding a democratically elected leader from acting as a bandit.

Other contributions in the literature of comparative political economy investigate the impact of political institutions on public policies and economic outcomes. Oechslin (2010) focuses on non-democratic regimes and shows that the relationship between tax-revenues and growth may be hump-shaped. The underlying reason is that in the presence of high governmental revenues, the viability of the regime will be jeopardized by potential challengers, thus reducing the current government's time horizon and associated growth-enhancing investments. Gehlbach and Keefer (2011) focus on institutionalized ruling parties as a commitment device used (under some conditions) by autocrats to provide a sound economic environment for investors, thereby reaching democracies' levels of private investment. In comparing long run dynamics of democracies and dictatorships, both Acemoglu (2008) and Davis (2010) demonstrate the superiority of the former. Acemoglu (2008) studies the economic performance of oligarchies (rule by the elite). He argues that while oligarchies may achieve better economic growth in the short run due to a more efficient use of capital, democracies generate better economic outcomes in the long run through the free entry of non-elite individuals into the productive class of capitalists. Davis (2010) suggests institutional flexibility – the ability to adopt and develop new institutions – as a key driver of long term economic growth. The flexibility

[1] The rent extraction behavior of dictators has been stressed in influential works on dictatorships (Bueno De Mesquita et al., 2003; Lee, 2003).