Economic Origins of Dictatorship and Democracy

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To the memory of my parents, Kevork and Irma, who invested so much in me.
To my love, Asu, who has been my inspiration and companion throughout.

Daron Acemoglu

To the memory of my mother, from whom I inherited my passion for books and my indignation at the injustices of this life. To the memory of my father, from whom I inherited my fascination for science and my curiosity about this extraordinary world.

James A. Robinson

ECONOMIC ORIGINS OF DICTATORSHIP AND DEMOCRACY

This book develops a framework for analyzing the creation and consolidation of democracy. Different social groups prefer different political institutions because of the way they allocate political power and resources. Thus, democracy is preferred by the majority of citizens but opposed by elites. Dictatorship, nevertheless, is not stable when citizens can threaten social disorder and revolution. In response, when the costs of repression are sufficiently high and promises of concessions are not credible, elites may be forced to create democracy. By democratizing, elites credibily transfer political power to the citizens, ensuring social stability. Democracy consolidates when elites do not have a strong incentive to overthrow it. These processes depend on (1) the strength of civil society, (2) the structure of political institutions, (3) the nature of political and economic crises, (4) the level of economic inequality, (5) the structure of the economy, and (6) the form and extent of globalization.

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Preface

A fundamental question in political science and political economy is which factors determine the institutions of collective decision making (i.e., the "political institutions"). In tackling this question, a natural initial distinction is between democratic and nondemocratic institutions. Why is it that some countries are democracies, where there are regular and free elections and politicians are accountable to citizens, whereas other countries are not?

There are a number of salient empirical patterns and puzzles relevant to answering this question. For instance, while the United States moved very early toward universal white male suffrage, which was attained by the early 1820s by northern and western states and by the late 1840s for all states in the Union, such a pattern was not universal in the Americas. Elsewhere, republican institutions with regular elections were the norm after countries gained independence from colonial powers such as Spain and Portugal, but suffrage restrictions and electoral corruption were much more important. The first Latin American countries to implement effective, relatively noncorrupt universal male suffrage were Argentina and Uruguay in 1912 and 1919, respectively, but others, such as El Salvador and Paraguay, did not do so until the 1990s – almost a century and a half after the United States.

Not only is there great variation in the timing of democratization, there also are significant qualitative differences in the form that political development took. Democracy was created, at least for white males, with relatively little conflict in the United States and some Latin America countries, such as Costa Rica. In other places, however, democracy was often strenuously opposed and political elites instead engaged in mass repression to avoid having to share political power. In some cases, such as El Salvador, repression was ultimately abandoned and elites conceded democracy. In others, such as Cuba and Nicaragua, elites fought to the bitter end and were swept away by revolutions.

Once created, democracy does not necessarily consolidate. Although the United States experienced a gradual movement toward democracy with no reverses, a pattern shared by many Western European countries such as Britain and Sweden,

democracy in other countries fell to coups. Argentina is perhaps the most extreme example of this: the political regime switched backwards and forwards between democracy and nondemocracy throughout most of the twentieth century.

What determines whether a country is a democracy? Which factors can explain the patterns of democratization we observe? Why did the United States attain universal male suffrage more than a century before many Latin American countries? Why, once created, did democracy persist and consolidate in some countries, such as Britain, Sweden, and the United States, and collapse in others, such as Argentina, Brazil, and Chile?

In this book, we propose a framework for analyzing the creation and consolidation of democracy that we use to provide tentative answers to some of these questions.

The framework has the following three fundamental building blocks:

1. Our approach is "economic-based" in the sense that we stress individual economic incentives as determining political attitudes, and we assume people behave strategically in the sense of game theory.
2. We emphasize the fundamental importance of conflict. Different groups, sometimes social classes, have opposing interests over political outcomes, and these translate into opposing interests over the form of political institutions, which determine the political outcomes.
3. Political institutions play a central role in solving problems of commitment by affecting the future distribution of *de jure* political power.

To starkly illustrate our framework, consider a society in which there are two groups: an elite and the citizens. Nondemocracy is rule by the elite; democracy is rule by the more numerous groups who constitute the majority – in this case, the citizens. In nondemocracy, the elite get the policies it wants; in democracy, the citizens have more power to get what they want. Because the elite loses under democracy, it naturally has an incentive to oppose or subvert it; yet, most democracies arise when they are created by the elite.

Why does a nondemocratic elite ever democratize? Since democracy will bring a shift of power in favor of the citizens, why would the elite ever create such a set of institutions? We argue that this only occurs because the disenfranchised citizens can threaten the elite and force it to make concessions. These threats can take the form of strikes, demonstrations, riots, and – in the limit – a revolution. Because these actions impose costs on the elite, it will try to prevent them. It can do so by making concessions, by using repression to stop social unrest and revolution, or by giving away its political power and democratizing. Nevertheless, repression is often sufficiently costly that it is not an attractive option for elites. Concessions may take several forms – particularly policies that are preferred by the citizens, such as asset or income redistribution – and are likely to be less costly for the elite than conceding democracy.

The key to the emergence of democracy is the observation that because policy concessions keep political power in the hands of the elite, there is no guarantee that it will not renege on its promises. Imagine that there is a relatively transitory situation in which it is advantageous for the citizens to contest power. Such a situation may arise because of wars or shocks to the economy, such as a harvest failure, a collapse in the terms of trade, or a depression. If repression is too costly, the elite would like to buy off the citizens with promises of policy concessions – for example, income redistribution. However, by its very nature, the window of opportunity for contesting power is transitory and will disappear in the future, and it will be relatively easy for the elite to renege on any promises it makes. Anticipating this, the citizens may be unsatisfied with the offer of policy concessions under unchanged political institutions and may choose to revolt.

In our framework, the key problem is that the politically powerful cannot necessarily commit to future policy decisions unless they reduce their political power. Democracy then arises as a credible commitment to pro-citizen policies (e.g., high taxation) by transferring political power between groups (from the elite to the citizens). Democratization is more of a credible commitment than mere promises because it is associated with a set of institutions and greater involvement by the citizens and is therefore more difficult to reverse. The elite must democratize – create a credible commitment to future majoritarian policies – if it wishes to avoid more radical outcomes.

The logic underlying coups against democracy is similar to that underlying democratizations. In democracy, minority groups (e.g., various types of elites) may have an incentive to mount a coup and create a set of more preferable institutions. Yet, if there is a coup threat, why cannot democracy be defended by offering concessions? Democrats will certainly try to do this, but the issue of credibility is again central. If the threat of a coup is transitory, then promises to make policies less pro-majority may not be credible. The only way to credibly change policies is to change the distribution of political power, and this can only be achieved by institutional change – a coup or, more generally, transition to a less democratic regime.

The main contribution of our book is to offer a unified framework for understanding the creation and consolidation of democracy. This framework, in particular, highlights why a change in political institutions is fundamentally different from policy concessions within the context of a nondemocratic regime. An important by-product of this framework is a relatively rich set of implications about the circumstances under which democracy arises and persists. Our framework emphasizes that democracy is more likely to be created:

- when there is sufficient social unrest in a nondemocratic regime that cannot be defused by limited concessions and promises of pro-citizen policies. Whether or not this is so, in turn, depends on the living conditions of the citizens in nondemocracy, the strength of civil society, the nature of the collective-action problem facing the citizens in a nondemocracy, and the details of nondemocratic

political institutions that determine what types of promises by the elite could be credible; and

- when the costs of democracy anticipated by the elite are limited, so that it is not tempted to use repression to deal with the discontent of the citizens under the nondemocratic regime. These costs may be high when inequality is high, when the assets of the elite can be taxed or redistributed easily, when the elite has a lot to lose from a change in economic institutions, and when it is not possible to manipulate the form of the nascent democratic institutions to limit the extent to which democracy is inimical to the interests of the elite.

Similarly, these factors also influence whether, once created, democracy is likely to survive. For example, greater inequality, greater importance of land and other easily taxable assets in the portfolio of the elite, and the absence of democratic institutions that can avoid extreme populist policies are more likely to destabilize democracy.

Beyond these comparative static results, our hope is that the framework we present here is both sufficiently rich and tractable that others can use parts of it to address new questions and generate other comparative statics related to democracy and other political institutions.

The topics we address in this book are at the heart of political science, particularly comparative politics, and of political economy. Nevertheless, the questions we ask are rarely addressed using the type of formal models that we use in this book. We believe that there is a huge payoff to developing the types of analyses that we propose in this book and, to that end, we have tried to make the exposition both simple and readable, as well as accessible to scholars and graduate students in political science. To make the book as self-contained as possible, in Chapter 4 we added an introductory treatment of the approaches to modeling democratic politics that we use in the analysis. Although the analysis is of most direct interest and generally accessible to political scientists, we hope that there is a lot of material useful for advanced undergraduates, graduate students, and academics in economics interested in political economy. In fact, one of the authors has taught parts of this book in a graduate-level economics course.

The main prerequisite for following the entire content of the book is a knowledge of basic ideas from complete information game theory at the level of Gibbons (1992). Nevertheless, we have designed the first two chapters to be a generally comprehensible and nonmathematical exposition of the questions we address and the answers we propose.

In writing this book, we incurred many debts. During the eight-year period that we worked on these topics, we gave many seminars on our research from Singapore to Mauritius, from Oslo to Buenos Aires and Bogotá. Many scholars made suggestions and gave us invaluable ideas and leads, and we apologize for not being able to remember all of them. However, we would like to mention several scholars whose unflagging enthusiasm for this research greatly encouraged us at

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In addition to the ideas and comments of these people, we received many useful suggestions from the other participants, including Scott Ashworth, Ernesto Calvo, Alberto Diaz-Cayeros, David Epstein, John Huber, Michael Hiscox, Torben Iverson, Sharyn O'Halloran, Jonathan Rodden, Kenneth Shepsle, and Andrea Vindigni. We also received useful feedback and suggestions from students at Berkeley and the University of the Andes in Bogotá, including Taylor Boas, Mauricio Benitez-Iturbe, Thad Dunning, Leopoldo Fergusson, Maiah Jakowski, Sebastián Mazzuca, and Pablo Querubín. Several friends and students also read large portions of the manuscript and gave us invaluable comments and feedback: Alexandre Debs, Thad Dunning, Scott Gehlbach, Tarek Hassan, Ruben Höpfer, Michael Spagat, Juan Fernando Vargas, Tianxi Wang, and Pierre Yared. We would also like to thank Timothy Besley, Joan Esteban, Dominic Lieven, Debraj Ray, Stergios Skaperdas, and Ragnar Torvik for their comments. We are grateful to Ernesto Calvo for providing the historical data on income distribution in Argentina that appears in Chapter 3 and to Peter Lindert for his help with the British data on inequality. Alexandre Debs, Leopoldo Fergusson, Pablo Querubín, and Pierre Yared also provided invaluable research assistance.

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1 Paths of Political Development

To understand why some countries are democracies whereas others are not, it is useful to distinguish between different characteristic paths that political institutions take over time. Only some of these paths end in democracy, at least at this moment in time. These stylized paths help us to orient ourselves among the complexities of real-world comparisons, and they illustrate the main mechanisms that we believe link the economic and political structure of a society to political institutions.

There are four main paths of political development. First, there is a path that leads from nondemocracy gradually but inexorably to democracy. Once created, democracy is never threatened, and it endures and consolidates. Britain is the best example of such a path of political development. Second, there is a path that leads to democracy but where democracy, once created, quickly collapses. Following this, the forces that led to the initial democratization reassert themselves, but then democracy collapses again and the cycle repeats itself. This path – where democracy, once created, remains unconsolidated – is best exemplified by the Argentinian experience during the twentieth century. Logically, a third path is one in which a country remains nondemocratic or democratization is much delayed. Because there are important variations in the origins of such a path, it is useful to split nondemocratic paths into two. In the first path, democracy is never created because society is relatively egalitarian and prosperous, which makes the nondemocratic political status quo stable. The system is not challenged because people are sufficiently satisfied under the existing political institutions. Singapore is the society whose political dynamics we characterize in this way. In the second of these nondemocratic paths, the opposite situation arises. Society is highly unequal and exploitative, which makes the prospect of democracy so threatening to political elites that they use all means possible, including violence and repression, to avoid it. South Africa, before the collapse of the apartheid regime, is our canonical example of such a path.

In this chapter, we illustrate these four paths and the mechanisms that lead a society to be on one or the other by examining the political history of the four

countries. We discuss the dynamics of political development in all cases, exploring why they ended in consolidated democracy in Britain, unconsolidated democracy in Argentina, and persistent nondemocracy – albeit of different forms – in Singapore and South Africa. Our discussion highlights many of the factors that subsequent analysis will show to be crucial in determining why a society moves onto one path rather than another.

1. Britain

The origins of democracy in Britain lie with the creation of regular Parliaments that were a forum for the aristocracy to negotiate taxes and discuss policies with the king. It was only after the Glorious Revolution of 1688 that Parliaments met regularly, and they did so with a very restrictive franchise. The membership of Parliament at this stage was inherited from feudal notions about the existence of different "estates" in society. These orders were the clergy and the aristocracy, who sat in the House of Lords by right, and the commons, who sat in the House of Commons. Members of the Commons were, in principle, subject to elections, although from the eighteenth century through the middle of the nineteenth century, most elections were unopposed so that no voting actually took place (Lang 1999, p. 12). Candidates tended to be proposed by the leading landowners or aristocrats and, because there was no secret ballot and voting was open and readily observed, most voters did not dare go against their wishes (Namier 1961, p. 83; Jennings 1961, p. 81).

Nevertheless, the constitutional changes that took place following the Civil War of 1642–51 and Glorious Revolution of 1688 led to a dramatic change in political and economic institutions that had important implications for the future of democracy (North and Thomas 1973; North and Weingast 1989; O'Brien 1993; Acemoglu, Johnson, and Robinson 2005). These changes emerged out of conflict between the Stuart monarchs intent on maintaining and expanding their absolutist powers and a Parliament intent on reigning them in. Parliament won. The outcome was a restructuring of political institutions that severely limited the monarchy's powers and correspondingly increased those of Parliament. The change in political institutions led to much greater security of property rights because people no longer feared predation by the state. In particular, it placed power into the hands of a Parliament in which was represented merchants and landowners oriented toward sale for the market. By the late eighteenth century, sustained economic growth had begun in Britain.

The first important move toward democracy in Britain was the First Reform Act of 1832. This act removed many of the worst inequities under the old electoral system, in particular the "rotten boroughs" where several members of Parliament were elected by very few voters. The 1832 reform also established the right to vote based uniformly on the basis of property and income.

The First Reform Act was passed in the context of rising popular discontent at the existing political status quo in Britain. Lang (1999, p. 26) notes

> Fear of revolution, seen as a particular risk given the growth of the new industrial areas, grew rather than diminished in the years after Waterloo, and Lord Liverpool's government (1821–1827) resorted to a policy of strict repression.

By the early nineteenth century, the Industrial Revolution was well underway, and the decade prior to 1832 saw continual rioting and popular unrest. Notable were the Luddite Riots of 1811–16, the Spa Fields Riots of 1816, the Peterloo Massacre in 1819, and the Swing Riots of 1830 (see Darvall 1934 and Stevenson 1979 for overviews). Another catalyst for the reforms was the July revolution of 1830 in Paris. The consensus among historians is that the motive for the 1832 reform was to avoid social disturbances. Lang (1999, p. 36) concludes that

> the level of unrest reinforced the case for immediate reform now, rather than later: it was simply too dangerous to delay any longer. Just as Wellington and Peel had granted emancipation to avoid a rising in Ireland, so the Whigs . . . should grant reform as the lesser of two evils.

The 1832 Reform Act increased the total electorate from 492,700 to 806,000, which represented about 14.5 percent of the adult male population. Yet, the majority of British people could not vote, and the aristocracy and large landowners had considerable scope for patronage because 123 constituencies contained fewer than one thousand voters. There is also evidence of continued corruption and intimidation of voters until the Ballot Act of 1872 and the Corrupt and Illegal Practices Act of 1883. The Reform Act, therefore, did not create mass democracy but rather was designed as a strategic concession. Unsurprisingly, the issue of parliamentary reform was still very much alive after 1832, and it was taken up centrally by the Chartist movement.

Momentum for reform finally came to a head in 1867, largely due to a juxtaposition of factors. Among these was a sharp business-cycle downturn that caused significant economic hardship and increased the threat of violence. Also significant was the founding of the National Reform Union in 1864 and the Reform League in 1865, and the Hyde Park Riots of July 1866 provided the most immediate catalyst. Searle (1993, p. 225) argues that

> Reform agitation in the country clearly did much to persuade the Derby ministry that a Reform Bill, any Reform Bill, should be placed on the statute book with a minimum of delay.

This interpretation is supported by many other historians (e.g., Trevelyan 1937; Harrison 1965).

The Second Reform Act was passed in 1867; the total electorate expanded from 1.36 million to 2.48 million, and working class voters became the majority in

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