

Sneaky Stealing: Why do autocrats choose to appropriate overtly or covertly?

liptrott94

April 2021

1 Introduction

In 2017 Mohammed Bin Salman became the Crown Prince and defacto ruler of Saudi Arabia. He immediately purged 200 wealthy businessmen and princes, including billionaire Al-Waleed Bin Talal and his rivals in the defense sector. Those arrested were charged with corruption and forced to forfeit supposedly illicit gains. Torture was sometimes used to gain access to overseas assets, and in total some 107 Billion dollars in wealth was expropriated. Most strikingly, the entire affair was conducted with great publicity. The purges were held not in their homes but in the Ritz-Carlton Riyadh, where MBS held a press conference just two weeks prior. One of the targets successfully escaped a month prior, only to be conspicuously assassinated in Turkey. Altogether, these episodes alienated MBS from the royal families traditions, Turkey and even the United States.

This episode was a stunning departure from dispute resolution in the Arab Monarchies. In 2012, King Abdullah the II of Jordan faced a similar dilemma when insider loyalist families possessed farming concessions on an aquifer the monarch desperately needed to supply a restive urban population. But unlike MBS, Abudllah the II had been ruling for 13 years and had no need for an extravagant and dangerous show. Abdullah the II privately declared the farms contracts expired and ordered them closed after an acrimonious but internal disagreement. The losers in the deal did complain, the but the regime made every effort to disguise the disagreement.

Why did MBS choose to expropriate his rivals publicly, which Abdullah the II buried the affair? This essay proposes that autocrats choose to overtly expropriate as a costly signal of loyalty to their launching coalitions. Even when all actors would prefer a quiet expropriation, the overt act provides reassurance to the launching organization that the autocrat is primarily concerned with their interests.

Previous accounts have argued that autocrats choose overt expropriation because it is easier and more lucrative than forced sales or regulations. I argue that the financial dimension does have causal power but the signalling needs also explain a significant part of the variance.

This paper shows that contrary to the financial model, as autocrats become more consolidated they expropriate more covertly. The autocrat most certain of their position prefers a covert confiscation (although they are still much more overt than a democracy). This evidence is consistent with a signalling model of overt expropriation.

2 The Autocrats Calculus

My account of overt expropriation begins with the autocrats supporters. No head of state rules alone, so some coalition of elite actors must cooperate to place their candidate on the throne. We call this coalition the launching organization (LO). However, once the LO has succeeded in putting their leader in power, they are themselves at risk of removal. As the autocrat becomes more secure she gains leverage to change her winning coalition, replaces disfavored allies with her preferred allies. If the autocrat has falsified their ideal winning coalition, the consolidation stage becomes dangerous for the LO and their policy preference are unlikely to materialize. Therefore the LO desires true information about the autocrats preferred winning coalition, particularly early on when the LO can still replace the autocrat.

The new autocrat in turn faces a signalling challenge. She may say to her supporters "You are my ideal winning coalition", but the LO cannot believe cheap talk. The autocrat must send a signal that would be authentically difficult for a disloyal autocrat to send. An expropriation is just such a signal. Expropriation removes a rival powerbase to the LO, which a disloyal autocrat would not do. In the case of foreign investment a public expropriation also alienates potential international supporters of the autocrat. It may even constrain the autocrats ability to flee by angering foreign powers.

A covert expropriation provides a similar financial windfall but much less signalling value. Members of the launching organization may not notice the act, particularly if they are non-elites. Covert expropriation also does less to alienate the international community from the autocrat.

The alternative explanation of overt expropriation is simply that it is cheaper, but creates more enemies. A forced sale would be less efficient as the company must receive some compensation, and the state is not the direct recipient. This theory predicts that the most constrained autocrats will prefer covert expropriation, while a consolidated autocrat should expropriate publicly.

3 Data

The ideal dataset for this claim would cover all expropriations in developing autocracies. However, there does not exist a viable dataset on national company expropriations which includes data on the method of expropriation. Furthermore, data on national company expropriations would be biased by the regimes ability to punish complaining owners. Fortunately, foreign companies face no

such silencing allowing us unbiased data on their expropriations.

This paper uses a dataset of 618 expropriations of foreign direct investment (FDI) by developing countries from 1960 to 2006. The original data was collected by Kobrin et al. (1980). It has been updated by Minor (1994) and Hajzler (2010).

The majority of the expropriations occurred prior to 1980, with a small resurgence after 2000. Previous research suggests that in the 1980's opportunities for theft were exhausted, while states became disillusioned with the modest returns and audience costs of expropriation.

Following Perlman (forthcoming) an overt expropriation as "[t]he taking of foreign property directly by the government under the due process of local law. This generally entails an act of parliament or an executive order for which proper authority exists" (Kobrin, 1980, 68). The asset moves directly into the control of the government. These seizures are usually highly public and the state has little wiggle room to avoid responsibility.

Covert expropriation can take place several ways. In an intervention some private actor takes over control of the investors asset and the state makes no intervention to protect the asset. The state may force the investor to sell the company to the government at some below-market price. Finally the state may use the threat of coercion to force the investor into an unfavorable contract renegotiation. Each of these methods provides the state with plausible deniability about the expropriation, hiding the act from both internal and external observers.

Figure 1 plots the count of expropriations by type per year.

4 Results

First, I restrict the dataset to only include non-democracies, as classified by Geddes, Wright and Frantz. This retains 491 of the original 618 expropriations (democracies expropriate much less often).

In the first regression I condition on expropriation the regress on a dummy variable with overt as one. My first dependent variable of interest is tenure years, which has a strong inverse correlation with coup risk (Svolik). All three specifications find a statistically significant relationship between years in office and type of expropriation. An autocrat who has been in office for 10 years is 16 percentage points more likely to expropriate covertly than overtly. This first result directly contradicts the financial model, as the most secure autocrats expropriate more covertly.

Polity score is in the expected direction but is not significant, which is expected because the sample is restricted to autocracies. Controlling for sector, region and decade fixed effects creates no change.

Table 1 about here

For my second set of regressions I examine coup risk, as calculated by Curtis (2016). Again we see that more secure autocrats prefer covert expropriation,

Table 1:

	<i>Dependent variable:</i>		
	overt		
	(1)	(2)	(3)
tenure_years	−0.016*** (0.005)	−0.016*** (0.005)	−0.016*** (0.005)
polity2_P4	−0.007 (0.006)	−0.007 (0.007)	−0.007 (0.007)
gdppc_WDI_PW	−0.00000*** (0.00000)	−0.00000** (0.00000)	−0.00000*** (0.00000)
Constant	0.627*** (0.049)	0.560*** (0.070)	0.417*** (0.088)
Sector Fixed Effects?	No	Yes	Yes
Region Fixed Effects?	No	Yes	Yes
Decade Fixed Effects?	No	No	Yes
Observations	389	387	387
R ²	0.051	0.065	0.088
Adjusted R ²	0.044	0.040	0.053
Residual Std. Error	0.485 (df = 385)	0.486 (df = 376)	0.483 (df = 372)
F Statistic	6.951*** (df = 3; 385)	2.613*** (df = 10; 376)	2.556*** (df = 14; 372)

Note:

*p<0.1; **p<0.05; ***p<0.01

controlling for all fixed effects.

Table 2:

	<i>Dependent variable:</i>		
	overt		
	(1)	(2)	(3)
couprisk	−4.700 (4.442)	−8.338* (4.477)	−10.574** (4.478)
polity2_P4	−0.035*** (0.008)	−0.026*** (0.008)	−0.017* (0.009)
gdppc_WDLPW	−0.00000 (0.00000)	0.00000 (0.00000)	0.00000 (0.00000)
Constant	0.629*** (0.062)	0.551*** (0.098)	0.629*** (0.099)
Sector Fixed Effects?	No	Yes	Yes
Region Fixed Effects?	No	Yes	Yes
Decade Fixed Effects?	No	No	Yes
Observations	148	146	146
R ²	0.126	0.260	0.314
Adjusted R ²	0.107	0.205	0.246
Residual Std. Error	0.399 (df = 144)	0.378 (df = 135)	0.368 (df = 132)
F Statistic	6.895*** (df = 3; 144)	4.734*** (df = 10; 135)	4.639*** (df = 13; 132)

Note:

*p<0.1; **p<0.05; ***p<0.01

The effect remains when controlling for national legislatures, which do have an independent effect of restraining autocrats.

Subnational elections may have a restraining effect, but the confidence intervals are much too large to confirm.

When vertical accountability mechanisms are included, the effect of tenure does decline. There could be a correlation between long survival of an autocrat and vertical accountability, which biased upward the earlier beta1 estimates.

5 Overt Expropriation and Tenure in Office

In the next section I cease conditioning on the expropriation decision. Unfortunately, I am waiting for a data request to select only country-years where some FDI existed to be expropriated.

Table 3:

	<i>Dependent variable:</i>		
		overt	
	(1)	(2)	(3)
tenure_years	−0.017*** (0.006)	−0.015** (0.006)	−0.016** (0.007)
v2xlg_legcon_VDEM	−0.358** (0.148)	−0.589*** (0.166)	−0.486*** (0.181)
polity2_P4	−0.007 (0.007)	0.001 (0.008)	−0.001 (0.008)
gdppc_WDLPW	−0.00000*** (0.00000)	−0.00000* (0.00000)	−0.00000* (0.00000)
Constant	0.694*** (0.070)	0.805*** (0.101)	0.661*** (0.136)
Sector Fixed Effects?	No	Yes	Yes
Region Fixed Effects?	No	Yes	Yes
Decade Fixed Effects?	No	No	Yes
Observations	228	228	228
R ²	0.103	0.163	0.181
Adjusted R ²	0.087	0.121	0.123
Residual Std. Error	0.479 (df = 223)	0.470 (df = 216)	0.469 (df = 212)
F Statistic	6.433*** (df = 4; 223)	3.829*** (df = 11; 216)	3.131*** (df = 15; 212)

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 4:

	<i>Dependent variable:</i>		
	overt		
	(1)	(2)	(3)
tenure_years	−0.018*** (0.006)	−0.015** (0.006)	−0.016** (0.007)
subnat_elec_VDEM	−0.332** (0.132)	−0.226 (0.165)	−0.235 (0.167)
v2xlg_legcon_VDEM	−0.349** (0.147)	−0.541*** (0.169)	−0.434** (0.184)
polity2_P4	0.006 (0.008)	0.008 (0.009)	0.005 (0.010)
gdppc_WDLPW	−0.00000*** (0.00000)	−0.00000* (0.00000)	−0.00000** (0.00000)
Constant	0.867*** (0.098)	0.891*** (0.119)	0.750*** (0.150)
Sector Fixed Effects?	No	Yes	Yes
Region Fixed Effects?	No	Yes	Yes
Decade Fixed Effects?	No	No	Yes
Observations	228	228	228
R ²	0.128	0.170	0.189
Adjusted R ²	0.109	0.124	0.128
Residual Std. Error	0.473 (df = 222)	0.469 (df = 215)	0.468 (df = 211)
F Statistic	6.531*** (df = 5; 222)	3.680*** (df = 12; 215)	3.074*** (df = 16; 211)

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 5:

	<i>Dependent variable:</i>		
	overt		
	(1)	(2)	(3)
tenure_years	−0.007 (0.005)	−0.012* (0.007)	−0.013* (0.007)
v2x_veracc	−0.187*** (0.040)	−0.149* (0.078)	−0.140* (0.080)
v2xlg_legcon_VDEM		−0.357* (0.205)	−0.283 (0.214)
polity2_P4	0.003 (0.006)	0.005 (0.008)	0.002 (0.009)
gdppc_WDLPW	−0.00000*** (0.00000)	−0.00000** (0.00000)	−0.00000** (0.00000)
Constant	0.549*** (0.050)	0.726*** (0.109)	0.602*** (0.139)
Sector Fixed Effects?	No	Yes	Yes
Region Fixed Effects?	No	Yes	Yes
Decade Fixed Effects?	No	No	Yes
Observations	389	228	228
R ²	0.103	0.177	0.193
Adjusted R ²	0.094	0.131	0.132
Residual Std. Error	0.472 (df = 384)	0.467 (df = 215)	0.467 (df = 211)
F Statistic	11.049*** (df = 4; 384)	3.855*** (df = 12; 215)	3.157*** (df = 16; 211)

Note:

*p<0.1; **p<0.05; ***p<0.01

6 Expropriation and Survival

In this final section I look at the effect of expropriation on autocrat survival. This section is also awaiting data.

7 Introduction