2 The Dictator's Dilemma

1 Sympathy for the dictator

The most obvious feature of dictatorship is that dictators typically have enormous power over their people. Yet there is one thing that even dictatorial powers cannot give them: the *minds* of their subjects. Dictators cannot – either by using force or the threat of force, or by promises even of vast sums of money or chunks of their empires (if any are available) – know whether the population genuinely worships them or worships them because they command such worship. The case of the Roman emperor Nero provides a good illustration.[1] Of all of his accomplishments, Nero was most proud of his lyre playing and, while emperor, he often entered musical contests. The art scene in Rome did not satisfy him and he headed for Greece. According to the profile of him by Gaius Suetonius, in his celebrated *The Twelve Caesars* (1957):

> His main reason [for leaving Rome] was that the [Greek] cities which regularly sponsored musical contests had adopted the practice of sending him every available prize for lyre playing; he always accepted these with great pleasure, giving the delegates the earliest audience of the day and invitations to private dinners. Some of them would beg Nero to sing when the meal was over, and applaud his performance to the echo, which made him announce: "The Greeks alone are worthy of my efforts, they really listen to music." (p. 224)

It is of course possible that the Greek audience may have been influenced by Nero's position. If that were not enough, Suetonius continued, there were other constraints on their behavior. He wrote,

> No one was allowed to leave the theatre during his recitals, however pressing the reason. We read of women in the audience

[1] Although they did not use the title "dictator" (only Julius Caesar had been granted that title permanently, and he did not, as it turned out, hold it for long), the emperors most surely had that power, as discussed in detail in Chapter 4.

giving birth, and of men being so bored with listening and applauding that they furtively dropped down from the wall at the rear, since the gates were kept barred, or shammed dead and were carried away for burial. (p. 225)

Jon Elster analyzes this general problem, which he refers to as the basic paradox of the Hegelian master–slave dialectic. He stated,

> The master cannot simultaneously enjoy his absolute power – which exists only insofar as he can abuse it . . . – *and* draw satisfaction from the recognition that the slave offers him. It would be like a nation seeking diplomatic recognition from one of its own colonies, like the person checking the news in the paper by buying a second copy . . . (1993, p. 67)

However, this way of thinking about dictatorship does not originate with Hegel, but was known in ancient times. Consider the dialogue by Xenophon, "Hiero, or Tyrannicus," apparently the only ancient dialogue devoted entirely to the subject of tyranny, and which Leo Strauss has resurrected and written an extensive commentary on (Strauss, 1963/1991). In the first part of the dialogue, the tyrant (Hiero) complains at length about the miseries that tyranny causes the *tyrant* himself. Flattery is no solace to him. He laments,

> "What pleasure . . . do you think a tyrant gets from those who say nothing bad, when he knows clearly every thought these silent men have is bad for him? Or what pleasure do you think he gets from those who praise him, when he suspects them of bestowing their praise for the sake of flattery?" (Xenophon, reprinted in Strauss 1963/1991, p. 5)

The basic problem is that the tyrant could trust no one, not even those closest to him. Because of this, love was denied to him as well. According to Hiero,

> ". . . [i]t is never possible for the tyrant to trust that he is loved. For we know as a matter of course that those who serve through fear try by every means in their power to make themselves appear to be like friends by the services of friends. And what is more, plots against tyrants spring from none more than from those who pretend to love them most. . . . How should they believe they are loved by anyone else, inasmuch as they are so hated by such as are inclined by nature and compelled by law to love them?" (pp. 7–8, 10)

Instead of trust or love, the tyrant's life is governed by fear. He continued,

> "To fear the crowd, yet to fear solitude; to fear being without a guard, and to fear the very men who are guarding; to be unwilling to have unarmed men about me, yet not gladly to see them armed – how could this fail to be a painful condition? . . . to trust strangers more than citizens, barbarians more than Greeks; to desire to keep the free slaves, and be compelled to make the slaves free – do not all these things seem to you signs of a soul distracted by fears?" (p. 13)

The poor tyrant! And yet his or her dilemma cannot be dismissed, and it must be investigated. To do so, let us begin by noting that this dilemma is inherent in any dictatorship – that is, in any system in which the rulers are self-appointed and in which there is no legal procedure for removing them. The problem is obviously magnified when procedures for succession are unclear. On the other hand the dilemma is partly solved if the identity of the successor is known for certain, as in dynastic rule. There is no point in assassinating a dictator if by doing so, you will only get his or her idiot son instead. This knowledge soothes the dictator.

The dilemma is also a paradox: As the dictator's *power* over his or her subjects increases, his or her problem appears to become larger. The more threatened they are by the ruler, the more the subjects will be afraid to speak ill of or to do anything which might conceivably displease him or her. Therefore, it would seem, the less the dictator knows what they are really thinking, and the more reason for him or her to be insecure! Hence the paradox: The greater the dictator's power, the more reason he or she has to be afraid. Finally, and most important, the problem is *two-sided*. The dictator's dilemma could equally be called the subject's dilemma: As much as dictators want to be loved, the subjects want them to believe that they *are* loved, for only then are the people safe from them. If they can make their dictator believe that they truly worship (or even that they support) him or her, then he or she need not fear them; and if in turn the ruler does not fear them, they need not fear him or her. This was the solution to the Dictator's Dilemma suggested by the character Simonides (an economist!) in Xenophon's dialogue. He told the emperor that if only he cared for his people, they would care for him in return, and then not only would he have nothing to fear from them, he would be the happiest of men. We will later examine (in Chapter 4) this strategy in more detail.

Stalin is a good modern illustration of a dictator in the grip of the dilemma – and of a different type of solution to this problem. According to the historian Alan Bullock, he thirsted for recognition from his former allies, the Old Bolsheviks, and it was this thirst which explains his fantastic efforts to extract confessions from them in the great show trials of the 1930s. Stalin wanted these allies to recognize, Bullock (1991) noted,

> not just that he had won, but that his victory was deserved and that they accepted him, as they had accepted Lenin, of their own volition, as the *Vozhd* (leader). This explains his insistence over and over again during the period of the trials that the accused, the generation of the Old Bolsheviks, should confess in humiliating terms that they had been wrong, and Stalin always right. (p. 358)

But it was not just this demand for recognition but fear itself that motivated Stalin. "His suspicion never slept," Bullock wrote. "[I]t was precisely the Bolshevik Old Guard whom he distrusted most. Even men who had been closely associated with him in carrying out the Second Revolution, as members of the Politburo or the Central Committee, were executed, committed suicide, or died in the camps" (p. 377).

Stalin was like Julius Caesar insofar as he attempted and was seen to be attempting to substantially augment his own personal power. But Caesar was popular. He won popularity not just through glory, but through generosity. He built a new forum with the spoils taken in Gaul. He doubled the pay of the army and made gifts of prisoners, thousands at a time, or loans of troops whenever asked, without first obtaining official permission from the Senate or the Roman people. He also presented the principal cities of Asia and Greece with magnificent public works, and he did the same for those of Italy, Gaul, and Spain (Suetonius 1957, p. 25). He always accepted honors, even when they might appear excessive: It was whispered at one point that at the next meeting of the Senate the title "King" (hated by many Romans) would be conferred on Caesar (p. 48). Stalin was "haunted by the fear of an attempt on his life" (Bullock 1991, pp. 364–5). No fewer than sixty men took part in Caesar's assassination.

The modern African dictator also suffers from insecurity. For many regimes, this insecurity is unsurprising, given the frequency of coups in and the notoriously short life of many African regimes.[2] However, even a long-lasting regime like that of Zaire's Mobutu, which survived for 31 years, was dominated by insecurity. According to Michael Schatzberg's

[2] John Londregan and Keith Poole (1990) provide evidence that the frequency of coups in Africa is caused by the poverty of that region, thus suggesting that no separate "Africa effect" is needed to explain this frequency.

(1988) portrait of the regime, "[t]he insecurity of its leaders is never far from the surface" (p. 49). One reason for this insecurity, apparently, was the difficulties Zairian officials experienced in obtaining information from the hinterland. The leader's problem (Schatzberg 1988; see also Callaghy 1984) is that his relationships with the people were filtered through the bureaucracy. The bureaucracy had its own interests, apart from giving Mobutu accurate information as to what was going on under his rule. In particular the regime's extensive use of coercion made bureaucrats afraid to turn in negative information – information that things were not going well in the hinterland – which might raise the possibility that there were people in some parts of Zaire who were not ecstatic about life under Mobutu. The bureaucrat who reported this information ran the risk associated with being the bearer of bad news. Thus, one of the important "information networks" used by the Zairian state was the CND (Centre National de Documentation), the direct successor of the Belgian Colonial Sûreté. Some CND reports read like this:

> During this ten day period all remains calm across all the area of Mongola. All the people work in joy, doubling their energy thanks to the continuity of the new regime. The recent ministerial reshuffle accomplished by the Father of the Nation brought forth a great joy among the population which promises him a sincere attachment. (Schatzberg 1988, p. 47)

Would reports like this one have made Mobutu feel more secure – or less? Perhaps sensing this problem, the CND employ the mantra "situation is calm" to soothe the dictator. The soothing action of the phrase was limited, however, as a result of its use in the following bizarre manner:

> You are informed that on 26 May 1974 the Zone Commissioner presented to the public 36 robbers who were sowing terror in the City of Bumba. These thieves are being kept in the central prison of Bumba which is not well maintained and their escape is to be feared. The operation continues. The situation is calm. (p. 47)

And then, one month later came this report: "Daily situation: of the 36 robbers arrested in Bumba, only 12 were brought to the prosecutor's office at Lizalla. Twenty-four escaped from the prison at Bumba. Situation is calm" (p. 48).

Thus, one problem with the coercive solution to the Dictator's Dilemma is that there is a cost to the dictator in imposing so much risk on the bureaucracy. It makes its members unwilling to report harmful – but truthful – information. Carl Friedrich and Zbigniew Brzezinski (1965) refer to this as the "vacuum effect" surrounding the dictator. In contemporary principal–agent theory, similar problems arise whenever the principal imposes too much risk on the agent. So it is not necessarily easy for dictators to displace their own risks onto those under them.

Of course, dictators typically enjoy income, privileges, and perquisites of office unknown to any democratic leader. But they also experience the other end of the spectrum of consumption possibilities: One common method of removing a dictator is assassination. In other words the dictator's rewards are great; his or her risks equally so. The dictator's fundamental difficulty in getting real information on just how popular he or she is compounds this risk–reward structure.[3]

Expressing it in terms of rational-choice theory, we would say that dictators and their subjects have a mutual communication or "signaling" problem; alternatively, they do not *trust* each other (Breton and Wintrobe 1982; Coleman 1990); or they have a problem of making "credible" commitments (North and Weingast 1989); or there is a problem of "enforcing" commitments (Przeworski 1991). Dictators may promise not to harm their subjects, but such promises are unenforceable. So are the citizens' promises of support. The insecurity of dictators follows from this line of reasoning: Mutual signaling is more costly between dictators and their subjects than between the government and the people in a democracy.

2 The method of analysis: economics and the enforcement problem

The Dictator's Dilemma, considered in abstract terms, is a set of circumstances in which there are gains from "exchange" (between the dictator and his subjects) but in which promises and obligations are not enforceable. For example, in exchange for their support, the dictator could promise to implement the kinds of policies that his or her subjects wish. However, what guarantee does each party have that the other party will live up to its commitment? Dictators could promise to change their policies in order to quell a riot, to appease an important interest group, or to break up a plot against them within the military or civilian bureaucracy. What commits dictators to keep their word after the crises are over? In the same way, any of these groups may profess their undying

[3] The general problem of knowing what the population really thinks is nicely described by Timur Kuran: It is caused by the disjunction between the *private beliefs* and *publicly expressed opinions* of the citizens of an autocracy (Kuran 1991, 1995). Kuran suggests that revolutions are, for this reason, fundamentally unpredictable.

support to calm a dictator. What prevents them from taking part in an assassination plot as soon as the ruler lets down his or her guard?

Viewed this way, we see that the Dictator's Dilemma is merely an extreme version of a very common problem. It exists in democratic politics, within firms and government bureaucracies, in families, and even in many markets. For example, consider the arena of democratic politics (interpreted here as political exchange). Particularly during elections, politicians promise policies in exchange for votes or for support from interest groups. What motivates the citizens or interest groups to believe the politicians will keep their promises? They cannot sue a politician in court for breaking a campaign promise. So what guarantee do they have that he or she will keep it after obtaining their votes? The world of bureaucratic politics is also often modeled in exchange terms. Bureaucrats trade favors with each other and with politicians. But a bureaucrat who reneges on a promise to do a favor for a politician or for another bureaucrat can't be taken to court. So how can the exchange take place? The same problem arises in primitive societies (in which often there are no courts) – and of course in many markets (some promises, e.g., that a good is "high quality" are obviously unenforceable, and many more are difficult to enforce). Even within families, the same problem arises if relations there are interpreted as exchange (e.g., a child may promise to "repay" his or her parents for the care he or she receives by promising to support them in their old age, but at present, at least in the United States, the parents can't sue the child if he or she reneges).[4]

In recent years a great deal of work has been done to apply the methods of economic theory to these problems, much as economic theory has been applied to areas traditionally in the domain of other disciplines such as law, politics, organizational relations, and the family. Partly as a result of this work, which has necessitated considerable adaptations to the tools of economic theory, and partly as a result of new developments in the theory of markets itself, it has been discovered that when economic rights and obligations are unclear, difficult to establish, or difficult to enforce, many of the standard propositions in economic theory do not hold and indeed are sometimes turned on their head. At the same time, this line of thought makes it possible to understand a great deal about social, political, legal, and even market relationships that is otherwise mysterious.

To see how the analysis works, consider the standard economic model

[4] Of course, one cannot rule out the development of such possibilities (citizens suing politicians, parents suing their children) in the future.

of the labor market. Note first that the same enforceability problem arises in this context. Firms hire employees and pay them a wage in exchange for the performance of tasks as specified by the employer. But what if the employer reneges and doesn't pay, or what if the employee "shirks" or otherwise performs badly? Implicitly, it is assumed the other party can sue in court and obtain satisfaction at little (theoretically zero) cost. Given this assumption – and some other standard ones – we know that the market for labor clears, producing an equilibrium wage W^* and employment level L^* in which everyone willing to work at that wage has a job.

Now suppose the assumption of costless enforceability is dropped. Instead, assume, say, that workers can shirk or in other ways perform their tasks poorly but that employers may have difficulty discovering this fact. One reason for this situation is that it may simply be hard to tell how well they are performing their tasks. For example, if employees are bond traders, it may be hard for the employer to ascertain if they are taking undue risk and exposing the firm to possible bankruptcy. If they are doing some form of creative work, it may be that an employee gets his or her best ideas while lying horizontally on a couch. In short, for various reasons, the performance of the employee may be difficult to monitor. What difference does this make? Suppose an employee shirks and the employer happens to discover this fact. The employer may threaten to fire him or her. However, by definition of the market-clearing wage W^*, any employee can get another job at that wage. Under these assumptions, the employee's rational response is to say, "Go ahead. The market clears, so if you fire me, I can always get another job at exactly the same wage as the one you're paying me!" In other words, as long as the market clears, no employee has any incentive to fulfill his or her contract as long as shirking is preferable to working. The reason this is so is that the employer has no means of punishing workers as long as a dismissed worker can always get another job on exactly the same terms as the one he or she already holds.

How can the employer solve this problem? One way is to offer a wage higher than that obtainable elsewhere. Then an employee can be credibly disciplined, because in that case the employee has something to lose (the wage premium) if he or she is caught shirking. However, all employers have exactly the same incentive to do this. So each firm will attempt to raise wages above those paid at rival firms, and the net result will simply be that the equilibrium wage at all firms rises to above market-clearing levels. In the end the problem does get solved, not because some firms pay higher wages than others (in equilibrium, they all pay the same wage), but because at the nonmarket-clearing wage, not only will some workers be involuntarily unemployed, but also every worker will face some *prospect* of unemployment. This situation gives employers *power* or authority over their workers. Employers can tell a worker to do something and threaten dismissal and the prospect of unemployment if he or she does not comply. As Carl Shapiro and Joseph Stiglitz (1984) put it, the prospect of unemployment serves as a "worker discipline" device.

The prospect of unemployment is not the only possible disciplinary mechanism. For example, Jeremy Bulow and Lawrence Summers (1986) suggested that if the economy can be divided into two sectors, one with "good" jobs (which pay high wages, offer some prospect of promotion and some job security, and so on) and one with "bad" jobs (with none of these attributes – McJobs, as they are popularly known), then the prospect of unemployment is not needed to discipline workers in good jobs. Dismissal poses a threat as long as the worker can fall into the bad jobs sector. Such a prospect is sufficient to discipline the labor force. Moreover, in this model many of the standard propositions of economic theory do not hold. For example, free trade is no longer optimal, because it is desirable to protect the good jobs sector.

Prior to the development of this type of model, economic theory identified power in economic relations solely with market power – that is, with some form of monopoly. These models showed that in the absence of costlessly enforceable property rights, power is not only consistent with but also essential to the workings of competition. Another implication of these models is that the institutions of exchange – and who controls them – make a difference. One reason this is so derives from the fact that the firm can deter employee shirking in either of two ways: by supervising workers more closely or by paying them a higher wage. To the firm, money spent on supervision and money spent on higher employee wages are both costs, and the firm will simply choose the cost-minimizing means to deter a given amount of employee shirking. But from the point of view of the economy, money spent on supervision uses up real resources, whereas paying higher wages does not, because it is merely a transfer from the firm to its employees. Consequently, from society's point of view, resources will be wasted in excess supervision (Bowles 1985; Shapiro and Stiglitz 1984). Moreover, alternative employment systems will give different results. Gordon (1990), for example, presents data on the ratio of administrative and managerial employees as a percentage of nonagricultural employment for various countries. In 1985 this ratio was 11.7 percent for the United States, but it was approximately 4 percent for Japan and West Germany, and 2.7 percent for Sweden. An interesting recent development is the "just-in-time system."

(In this system, as workers receive the next piece which they are supposed to work on, they are expected to see that it has come to them with no defects.) The system essentially *eliminates* supervisory personnel as such, because under such a system, workers are motivated to monitor each other.

In the labor market, then, *power* solves the enforcement problem. In other markets (and even in the labor market), there are alternative mechanisms that can perform this task. For example, consider the market for high-quality goods. Suppose that prior to purchase, consumers cannot distinguish high quality from low. What prevents the firm from producing low-quality goods and selling them as if they were of high quality? Carl Shapiro (1983, following Klein and Leffler 1981) showed that three conditions are required if a firm is to be discouraged from trying to cheat its customers:

1. There must be a prospect of future sales.
2. The firm must have a reputation, built in the past, as a seller of high-quality goods.
3. The firm must receive a price *premium* on high-quality goods, both to compensate it for its past investments in reputation and to serve as a deterrent to cheating.

According to the *no-cheating condition*, the present value of the premiums received from future sales must be large enough to overcome the one-time gains from cheating ("milking" the firm's reputation). In essence the existence of the price premium provides the consumer with a reason to trust the firm. Or, as Klein and Leffler put it, the consumer pays the firm "protection money" in the form of a price premium to ensure contractual fulfillment. In this context *trust* rather than power substitutes for legally enforceable property rights in solving the enforcement problem. But in another sense, the two solutions are the same: In both, *overpayment* (the wage or price premium) solves the cheating problem.

Now let us apply this way of thinking to political life. Begin by noting that all governments, democratic or dictatorial, provide services to citizens: They build roads, hospitals, and schools; and they provide policing and defense services which protect the population and (in dictatorships) repress it. The government provides these goods and services to the citizenry in exchange for political support. Or politicians may "supply" interest groups with policies that amount to some form of favorable regulation – a subsidy, a tariff, control over entry into an industry, favorable tax treatment, and so on – in exchange for campaign contributions. However, in any of these forms of political exchange, the problem, once again, is that there is no third party enforcement of the "contract" between politicians and citizens. Indeed, no formal contract is ever drawn up.

Because there is no contract, what prevents politicians from reneging on the exchange? Of course, they often do renege. The accusation that a government has "broken its promises" is one of the most commonly heard charges in any election campaign. However, if politicians *always* broke their promises, there would be little point in accusing them of doing so in any individual instance. So the question remains: Why do politicians keep their promises as often as they do? A similar question exists on the "demand" side of the political marketplace: What motivates citizens and interest groups to deliver support?

One solution is analogous to the one which was just given for labor and product markets: Cheating can be prevented when

1. There is a prospect of future interaction between the parties.
2. The parties have built up a reputation for not cheating.
3. The parties receive a premium on the exchange, both to compensate them for their past investments in reputation and to serve as a deterrent to cheating.

Now political parties are long-lived institutions both with reputations based on their past performance in office and with a substantial stake in their reputation in the future (Galeotti and Breton 1986; Weingast and Marshall 1988; Wintrobe 1987); and rational politicians have the same incentive as rational sellers in economic markets: to provide citizens with some reason to believe their promises (Wittman 1983). Similarly, rational politicians need to guard against "cheating" by citizens – that is, they will search for mechanisms which guarantee that citizens or interest groups can be counted on to deliver support. In general I suggest that the reciprocal problem of cheating is solved in political markets by "investments" which bind the parties to one another – that is, by engendering *political loyalty* or support. I define loyalty as a long-term attachment on the part of an individual to an organization or institution (for similar definitions see, e.g., Schaar 1968; also see Hirschman 1970). For the most part I will be talking about "rational" loyalty: For example, if Shapiro's conditions (1) to (3) are satisfied, the attachment is rationally motivated.

Substituting political parties for individuals as the central institutional actor in the political life of a democracy makes it possible to see how political exchange can take place. Conditions (1) and (2) are satisfied by democratic political competition when there is some trust in or loyalty to political parties. Of course, political parties may fall into disrepute, and many have. The fates of the Progressive Conservative Party in Canada or the Christian Democrats in Italy are recent cases which come readily to mind as examples of the severe punishment that voters can mete out to parties in which a pattern of cheating has been discovered.

This interpretation of political life also yields a simple explanation for the role of political *ideologies*, one which differs from the classic analysis of Downs (1957): A party's ideology is simply a set of promises, against which the actual performance of the party's representatives can be measured to ascertain whether cheating (deviating too far from its ideology) has occurred. This ideology gives the party a considerably larger role than simply assembling and nominating candidates (the roles assigned to it by Downs). It is the guardian of the voters' trust.

What is the political analogue of condition (3) – the premium? As far as politicians are concerned, the rewards – the income, prestige, and power – to holding political office are so large in most democracies that, by themselves, they constitute a substantial deterrent to political cheating. In a sense the premium here arises naturally from the dichotomous nature of political office – politicians are either "in" or "out." The more interesting question is what motivates loyalty on the part of citizens or interest groups. I suggest that the distribution of political *rents* (earnings that exceed productivity) often plays this role. Two examples which generate rational loyalty are pork-barrel projects and political patronage. Both are frequently discussed in the literature on congressional politics (Ferejohn 1974; Shepsle and Weingast 1981).

Suppose, for example, that a politician obtains a dam or bridge or other pork-barrel project for the citizens in his or her district. A proper cost–benefit analysis will reveal that the project is wasteful. Indeed, if the project is not wasteful, citizens have no reason to give their support to that politician in exchange for the dam or bridge, because the politician is making no sacrifice on their behalf but is simply doing what any technocrat would do. On the other hand, to the extent that the project *is* wasteful (i.e., a genuine pork-barrel project), citizens have some reason to believe that that politician or that political party is responsible for getting them the project and will thus look after their interests in the future, provided they reciprocate with their support. More precisely, the element of waste in the project is precisely the sign that the politician can claim credit for the project, as suggested by Ferejohn (1974) and others. A patronage job acts in exactly the same way. So pork-barrel projects and patronage jobs are the exact analog (in political markets) to price and wage premiums (in economic markets). The size of the premium is measured by the amount of waste in the project or by the excess of wages over marginal productivity in the case of a patronage job.

In general, the stock of loyalty capital may be measured by the total value of rents distributed by the political party in office. The total costs of rent-seeking (Posner 1975; Tullock 1967) – frequently measured in recent years – may be waste in the economic marketplace, but in the political marketplace these costs are useful investments which reduce the transactions costs of political exchange.

To recapitulate, we can say that the group which receives a monopoly privilege or other rent from a political party immediately has some reason to believe that that political party will look after its interests in the future. Because the rents can be withdrawn, politicians are justified in their belief that the favored group will provide the politicians with loyal support in return. The rents thus supply the necessary premium to compensate the group for its support or loyalty to the party, and they also serve as a deterrent to cheating. Consequently, pork-barrel projects and political patronage are investments which solve the problem of political cheating by citizens and interest groups (in political markets) in exactly the same manner as wage and price premiums (in labor and goods markets). We will call the total stock of such investments a politicians' "loyalty capital." These stocks are measurable and have been measured directly by Gianluigi Galeotti and Antonio Forcina (1989), who provide estimates of "loyalty ratios" for U.S. political parties.

Of course, these solutions are "second-best"; they involve waste and corruption, and in a sense they constitute a perversion of the democratic ideal. In the ideal scenario the citizenry trusts its politicians to implement their promises, and politicians can count on the citizenry in turn to fight for their political beliefs. But the ideal implicitly assumes that enforcement costs are zero. *So there is a precise parallel between the economist's ideal of markets and the political scientist's ideal of politics: Both function in the way they are supposed to only if the costs of enforcement are ignored.*

Still, we should not remain blind to the enormous gap between the pork-barrel and patronage-style solutions to the enforcement problem, on the one hand, and the democratic ideal, on the other. And this recognition should alert us to the fact that there are many other, better ways in which democracy might work and sometimes does. The basic problem for democratic politicians is to get the citizenry to believe in them and to motivate its voters to act on this belief by supporting them. There are many ways parties can do this. J.R. Lott (1987), for example, suggests that one important device by which politicians can precommit themselves is *ideology*. His many papers provide considerable evidence for this view (see, e.g., Lott 1987, 1990; for a general survey, see also Lott and Bender 1996). William Landes and Richard Posner (1975) suggested another mechanism to solve the enforcement problem: The independent judiciary, by making legislation harder to reverse in the future, helps to serve as a precommitment device. No doubt there are many other institutions that serve this function, and an illuminating book could probably be written about democracy from this point of view. In the present context, perhaps the most interesting point is that by limiting the power of the ruler over his or her subjects, by ensuring a free press which not only frees the subjects to criticize the ruler but also enables the ruler to discover what his or her subjects are really thinking, and by providing formal constitutional means for the ruler's removal, democratic institutions allow relations of trust to develop, credible commitments to be made, or signals to be sent much more simply and directly than is possible under dictatorships. Consequently, however badly democracy may sometimes perform in these respects, on theoretical grounds, we should expect it to do better than the alternative! With this point in mind, let us return to the subject of dictatorship and see what strategies are available to the dictator for solving the Dictator's Dilemma.

3 The instruments of political power

The message of our brief tour of the economics of self-enforcing exchange in the preceding section is that there are a number of devices which can substitute for the missing external enforcement mechanism, devices which allow exchange to take place.[5]

As far as the strategies available to the dictator are concerned, I suggest that all of them may be grouped into two classes: *repression* and *loyalty*.

By repression I refer to restrictions on the rights of citizens to criticize the government, restrictions on the freedom of the press, restrictions on the rights of opposition parties to campaign against the government, or,

[5] A second implication of this analysis is that markets do not solve the enforcement problem by themselves, and there is therefore a role for some other external force – which could be legal enforceability or the rule of law, but which could also be the dictator's political power – that helps markets to function. In other words, even within the realm of pure neo-classical economic theory, in the absence of a perfectly and costlessly functioning legal system, one cannot rule out the unpleasant idea that political and even autocratic interventions might be beneficial to economic efficiency or growth. The notion that markets spontaneously solve these problems by themselves, so widely believed and propagated, is simply logically incorrect. The lesson is perhaps by now well understood after the disastrous results of the attempt to simply "liberalize" the economy in Russia. There is thus no alternative, in assessing the operation of an economic system, to inquiring into how it works in some detail, and one cannot dismiss every autocratic intervention into the economy as one which necessarily reduces economic efficiency; as we will see (in Part III, where this issue is extensively discussed), many of them do, but not all, and not always in the ways expected.

as is common under totalitarian dictatorship, the outright prohibition of groups, associations, or political parties opposed to the government. To be effective, these restrictions must be accompanied by the monitoring of the population and by sanctions for disobedience. The existence of a political police force and of extremely severe sanctions for expressing and especially for organizing opposition to the government (such as imprisonment, internment in mental hospitals, torture, and execution) is the hallmark of dictatorships of all stripes.

How does the use of repression get around the Dictator's Dilemma? In part, of course, it does not (indeed, it *engenders* it), for as we have seen, the more the citizens are ruled by repression, the more the dictator has to fear from them. However, there is a way to solve this problem: Increase the level of repression further. Eventually, the dictator's own fear will begin to subside, for the simple reason that he or she need only be afraid of the people *if* (and it is a big *if*) they can organize or get their hands on the means to depose him or her. Increasing repression reduces this likelihood. However, it does cause another problem: In order to accomplish this goal, the dictator's security forces must themselves be given sufficient power, and their own uncertain reliability may, in the end, constitute the main threat to the ruler's regime. One obvious way to solve this problem is to overpay the security forces. But this is not the only way; there is another one that was typified by Stalin. Alan Bullock (1991) described his strategy when he wrote,

> ... [a]s a man of the people himself, not an intellectual or a former emigé, he alone understood that the Russian people had always been ruled, and could only be ruled, by fear, by suffering. And the key to that, as Peter the Great and Ivan the Terrible had understood before him, was to keep the *apparat* itself in a state of fear which it would in turn pass on to the people. Convictions might change, but fear lasted.... After Yagoda had completed two years as head of the secret police, Stalin decided that the time had come to liquidate him. He was succeeded by Yezhov, after whom the worst period of the terrors is known in Russia as the *Yezhovschina*; Yezhov also lived in fear, and when Stalin decided that the time had come, he, too, was liquidated. (p. 357)

This description of Stalin's strategy is not yet complete. One other important element in the successful inducement of fear (and the accurate revelation of information about culpability) is to ensure *competition* among agencies. Seweryn Bialer (1980) describes how this was part of Stalin's strategy as well:

> The secret police itself, the main tool but also the main danger to Stalin, was not permitted to grow too powerful *against* Stalin. It was checked by a number of administrative arrangements and policies. Besides Stalin's private secretariat, the most important of those were:
>
> The existence in the secretarial apparatus of the party's Central Committee of a Special Department [later named Department of Administrative Organs] which was empowered to supervise the internal affairs of the secret police;
>
> Stalin's retention of the power to appoint high police officials who were often selected from competing factions in order to minimize the possibility of a monolithic command and collusion;
>
> The retention of a military intelligence apparatus [GRU], semi-autonomous from the secret police, which provided an independent channel of information and an investigative body in strong competition with the police;
>
> The infrequent but significant reorganizations of the police apparatus, the most important of which consisted of dividing the enormous machine into two command structures – the MVD (NKVD) and MGB (NKGB) – and the separation of the internal intelligence and counterintelligence service from control over the militarized internal security units [VVB]. (p. 35)

So repression itself is, after all, one way to "solve" – or at least to ameliorate – the Dictator's Dilemma. The complications arising from its use (from the dictator's point of view) can be handled in several ways: There can be sufficient further repression; the security forces can be overpaid; such forces can be kept in a state of fear by means of competition among the different agencies; and so on.

Substantial evidence exists on the extent of repression in different regimes. Although the level of political repression may be difficult to measure conceptually, a number of indices are available, among which perhaps the best known is the "Civil Liberties Index," which has been issued by Freedom House annually since 1973 for a very large number of countries. Countries are ranked subjectively from 1 (most free) to 7 (least free) on the basis of such factors as the number of political prisoners, freedom of expression, freedom of the press, and so on. The rankings are reviewed by a distinguished panel of academics.

Economists have not, until recently, made much use of these data. The basic reason is undoubtedly the absence of a good theory of the determinants of political repression. On the other hand it is an article of faith among many economists that at least some of the important determinants of political freedom are economic. Using the Gastil data, John Bilson (1982) attempted to test for the influence of these factors and other economic variables on political freedom. However, the results were not very definitive. For example, the level of government intervention turned out not to be a significant determinant of political repression in his analysis. Neither did the growth rate of GNP, the average level of government expenditure, the ratio of exports to GNP (an index of "openness" to foreign influences), or population size. The only important explanatory variable was the level of income per capita, which is negatively correlated with political repression. However, the hypothesis that all the coefficients are equal to zero was also rejected. This possibility and the likelihood that all the independent variables themselves are highly correlated suggest that the main obstacle to progress in this area is that we do not understand how the variables are related to one another. R.H. Barrow (1949/1987) used the Civil Liberties Index in a multiple regression analysis to investigate the determinants of economic growth. Adam Przeworski and Fernando Limongi (1993) summarized the findings of a number of studies in an attempt to see if there is any correlation between dictatorship and economic growth, and they found very mixed results. Perhaps the most robust finding in this literature is the correlation between political stability and economic growth reported by Silvio Borner, Aymo Brunetti, and Beatrice Weder (1995). There is also the interesting finding of Stephen Knack and Philip Keefer (1995) that the protection of property rights, independent of regime type, is positively related to growth. But the main obstacle to discovering the determinants of repression – and the effects of repression on economic variables – appears to be not a lack of data but the lack of theory.

The other way to accumulate power is to accumulate political loyalty. One way to do this, as we have already suggested, is by means of the distribution of rents. But if this unsavory practice is common in democratic regimes, we will see that they pale in this respect in comparison with dictatorships. This subject is considered in detail in Part III of the book. In the meantime, readers might satisfy themselves on the plausibility of this point by recalling the well-known practice of this art under, say, Marcos in the Philippines, Hwan and Woo in South Korea, or communism as practiced everywhere. Note that on theoretical grounds we already have some reason to expect dictatorships to engage in greater rent distribution than democracies. Many of the institutions which can be used to create trust directly in democracy are exactly those forsworn by dictators. Nevertheless, there are other, more subtle strategies available to a dictator to gain the trust of his or her subjects. Some of them can be illustrated by examining the practices of the Roman emperor

Augustus. Augustus was one of the most skilled individuals at accumulating power the world has ever known, a ruler who (with Antony) defeated Brutus and then Antony (and Cleopatra), and founded the Roman Empire.

Suetonius describes some of the techniques Augustus used to solve the Dictator's Dilemma. For example, he often committed adultery, but according to Suetonius, he did so only for reasons of state: "[H]e wanted to discover what his enemies were at by getting intimate with their wives or daughters" (1957, p. 92). He nearly always restored the kingdoms which he had conquered to their defeated dynasties, and he followed a policy of linking together his royal allies by mutual ties of friendship or intermarriage (p. 82). One reason he fought wars, Suetonius says, is "because he wished to offer his secret enemies, and those whom fear rather than affection kept with his party, a chance to declare themselves by joining [his enemy] Lucius Antonius; he would then crush them, confiscate their estates, and thus manage to pay off his veterans" (p. 61). After what happened to Julius Caesar, he was wise enough to refuse offers of excessive honors. Thus, "when the people would have forced a dictatorship on him he fell on his knee and, throwing back his gown to expose his naked breast, implored their silence . . ." (p. 84). And "[he] did his best to avoid leaving or entering any city in broad daylight, because that would have obliged the authorities to give him a formal welcome or sendoff" (p. 84).

According to Suetonius, he was known for his generosity to all classes of people (p. 77). "None of Augustus' predecessors had ever provided so many, so different or such splendid public shows" (p. 78). But he always tried to demonstrate that he did this *not* to win popularity, but simply to improve the public welfare – that is, because he cared for the people, and wanted to be generous to them. But this did not mean that he could be taken advantage of. If the people demanded largesse which he had in fact promised, he responded, "I always keep my word." But he refused to grant demands for largesse for which no promise had been given (p. 78).

All of these strategies are ways to accumulate loyalty,[6] an ability which, I will argue, is characteristic of stable or long-lived dictatorships. As even Napoleon is said to have realized, "[T]errorist methods are a sign of weakness rather than of strength" (Cobban 1971, p. 90). The fact that both Hitler and Mussolini amassed considerable popular support is

[6] Although he was not averse to creating fear. "Once for instance, while addressing a soldiers' assembly at which a crowd of civilians were [*sic*] also present, he saw a Roman knight named Pinarius transcribing his speech; and had him stabbed there and then as taking too close an interest in the proceedings" (Suetonius 1957, p. 68).

well known (see, e.g., the studies in Larsen, Hagtvet, and Mykelbust 1980) and the basis for the famous claim by Seymour Lipset (1960) and others that the masses are a threat to democracy when politically active. In the next chapter we will show how the structure of totalitarian parties facilitates investments in loyalty. Chapter 4 returns to the Roman Empire and examines still other techniques used by the emperors to accumulate support.

In summary, the Dictator's Dilemma sounds like a paradox. In particular, what appears paradoxical is the proposition that the more power dictators have, the more insecure they are. Was Julius Caesar not powerful? And was it not for that reason that he was killed? But the paradox is really an artifact of the command model often used implicitly in discussions of power, a model in which the only instrument of power available to the dictator is commands backed by sanctions. A more general analysis, which we have begun in this chapter, shows that there are many ways for the dictators to accumulate power without increasing their insecurity.

Indeed, all of the techniques mentioned – the accumulation of loyalty (Augustus), the exercise of surveillance (Mobutu), and the use of bureaucratic competition to create fear (Stalin) would appear to increase the dictator's security as well as his or her power, thus invalidating the simple paradox of an apparent correlation between insecurity and power. Other strategies enable dictators to increase their level of security – and the security of their assets – at the expense of their power. Examples of such expenditures abound: The most obvious are the Swiss bank account; the plane on the landing strip, both ready and fueled; or the Praetorian Guard. Another technique is the practice of rotating – and requiring turnover among – staff and senior officers. Indeed, the simplest technique is to accept formal checks or limits on his or her power. Douglas North and Barry Weingast (1989) explain the Glorious Revolution in England – from which Parliament obtained from the king the capacity to insist that he repay his debts – in this manner. They point out that accepting this constraint on his power subsequently allowed the king to raise more revenue, because his promises to repay would, for the first time, be credible. By contrast, the French king, whose authority was not similarly limited, was at a disadvantage, a disadvantage which ultimately led to the bankruptcy of the state and to the French Revolution. In the same way, on the basis of our analysis, the population would have less to fear from the dictator if there were limits on his or her power. Such a dictator would also have less to fear from the people – and thus be more secure. So, in all these ways, a dictator can exchange power for security if he or she so desires.

In short, there are a number of techniques a dictator can use to circumvent the paradox of power. Behind the paradox, however, lies a fundamental truth about dictatorship: The absence of a legitimate, regularized procedure for the dictator's removal from office makes him or her relatively insecure in it. So, on perfectly rational grounds, the characteristic personality trait of dictators is paranoia.

4 Conclusion

The Dictator's Dilemma results from the fact that using his or her power to threaten people can increase his or her own insecurity in office. As the threat to the people increases, the people become more afraid to speak out or to do anything which might displease the ruler; as a result, the less the dictator knows about what they are really thinking or planning, and the more reason he or she has to fear them. On the other hand, if the subjects can convince the dictator of their support, then he or she need not fear them, and they therefore need not fear him or her. In terms of rational-choice theory, the dictator and the subjects have a problem of credibly "signaling" support or trust in one another. I discussed a number of reasons why this problem is important for the dictator's subjects; one of them is the fact that the insecurity of the dictator results in excessive repression (Stalin is the classic modern example).

From one point of view, the dilemma is simply an extreme case of the general problem of building or accumulating trust between two parties when their assets are very unequal – for example, in wealth, beauty, or fame, as well as in power. (For example, a woman who won a lottery declared on television afterward that from now on, she would be "stuck with the friends she has" – that is, now that she was wealthy, friendly overtures from people who were not themselves wealthy could only be greeted with suspicion.) From another point of view, the dilemma arises when there are gains from exchange but when promises and obligations are not enforceable. This problem occurs in many situations: in democratic politics, within firms and government bureaucracies, in families, and even in many markets. One general solution to this problem involves *overpayment* or the use of a price premium to motivate loyalty or trustworthiness. I explained how this solution works in the context of the labor market and the "market" for votes (democratic politics). I then looked at some of the ways autocrats have solved this problem, including Stalin, the Roman emperor Augustus, and Mobutu of Zaire, and I suggested that all these solutions can be grouped into two types: repression and loyalty.