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Autocracy and coups d'état

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Abstract In this paper I first briefly survey Tullock's contributions to the study of autocracy and *coups d'état*. Tullock's analysis of the *coup d'état* is insightful. He suggested that those at the top could control those at the bottom with a proper system of incentive payments. Here I expand on that idea by asking the reverse question, not what keeps those at the bottom from rebelling, but what keeps those at the top from looting the regime? I begin by noting that shareholders of the modern widely held corporation face a similar problem: what keeps the CEO from looting the company when the market for corporate control is flawed, shareholders are too weak to exercise discipline, and the board is in the CEO's pocket? I suggest the answer is provided by "internal governance": the old need the young for good performance. I explain the financial crisis of 2008 as in part the result of the failure of this mechanism. I also explain the success of modern China this way: The Communist Party facilitates growth because its structure provides a way for superiors (the "old") to trade with subordinates (the "young").

I have also expanded on Tullock's analysis to ask what conditions might prevent the dictator from implementing his solution to the *coup d'état* problem, thus explaining why *coups d'états* actually occur. The basic reason is the weakness of the state. Japanese history provides two interesting illustrations of this: first the Tokugawa regime, where the people were over-controlled, and second, the Meiji constitution, implemented after the fall of the Tokugawa state. The Japanese problem after Meiji was that the military (the young) had no incentive to offer their loyalty to the old (the civilian regime), so the young acted on their own. The problem was the reverse of the Tokugawa regime's: the Meiji constitution left the bottom with too much control over the top. There was no formal *coup d'état* but a number of coup attempts were made and *de facto* the military increasingly constituted a state within a state. This reversal of authority apparently continued down the chain of command, ultimately with tragic consequences, most notably the invasion of Pearl Harbor.

Keywords Dictatorship · Coup d'état · Internal governance · Japan · China

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1 Introduction

Gordon Tullock was the first economist to write about autocracy and the *coup d'état*. He did so mainly in his books *Autocracy* (1987) and *The social dilemma: the economics of war and revolution* (1974). The analysis of autocracy is linked in the latter volume to related dilemmas: revolution, the *coup d'état*, and war. Selections from both books are reprinted in and make up *The social dilemma: of autocracy, revolution, coup d'état and war* (2005) and for convenience that is the book I will refer to in this paper.

From the beginning Tullock recognized the crucial importance for understanding the behavior of dictatorship of what I (1990, 1998) called *The dictator's dilemma*: the autocrat's focus on his own survival in office and potential threats to his regime. The autocrat commands the country today, and everyone appears to bend to his will. Tomorrow, the regime may fall. The way the autocrat sees this problem, the steps he takes to try to escape this fate, for example how he structures the leadership of the armed forces, how much institutional protection is built in to the regime and so on, are key to understanding how dictatorship works.

In this paper I first outline briefly some of Tullock's contributions to the study of dictatorship, including his ideas on the Dictator's Dilemma and how the autocrat can prevent a *coup d'état* by essentially "overpaying" those who are potential threats to the regime. Then I build on this legacy in several ways. First I draw an analogy to a related problem—the problem of internal governance in corporations. Tullock argued that dictators were preoccupied by plots within their government but were relatively immune from a revolt of the mob because potential revolutionaries face a free rider problem. The same has been argued about heads of corporations being relatively immune from revolt by the shareholders. The benefits of a shareholder revolution might be enormous, but they are public goods. And the benefits of participation to any individual to make that revolution happen are tiny while the costs of participation may be large, so that individual participation is not rational. So ordinary people understand and participate very little in politics. And shareholders know very little about the corporations they are invested in and participate very little in the decision making of those bodies.

I then ask the reverse of Tullock's question: not what disciplines those below, but what disciplines those at the top? What prevents the dictator from extracting all the profits he can from the regime? What prevents the CEO from "looting" the corporation? In the context of the corporation, a number of mechanisms which discipline the CEO have been mentioned (discussed below), but the most interesting new idea is Acharya et al.'s (2008) concept of "internal governance": the CEO needs the cooperation, effort and loyalty of subordinates if the company is to make profits and they in turn want him to preserve the value of the firm so that it is still profitable when their turn comes to take over. So the main check on the behavior of the CEO comes from his subordinates. One can also see what happens when this mechanism does not work. For example, Acharya et al. partially explain the 2008 financial crisis on the ground that this check was weak in the big investment banks. The young in those firms were often "poached" by other firms and therefore had no loyalty to their own firm and therefore no incentive to monitor its CEO.

So here, instead of asking how can the top (the "old") control the bottom, we are asking how the bottom (the "young") can control the top. This line of thought has interesting implications for the study of *coups d'état* in dictatorships as well. I explain some of these, and then explore them in the context of a couple of interesting cases of (actual or potential) *coups d'état* and revolution, both in Asia. I choose these partly because Tullock himself was very interested in Asia and spent many years there as a diplomat before turning to academe in the United States, and partly because of their obvious general interest and importance.

The first illustration is modern China. What explains its spectacular economic performance? Is it enough to stave off revolution? I suggest that the leadership of the Communist Party of China pursues growth in exchange for the support of the young for the regime. More subtly, the Party facilitates that growth because its structure provides a way for superiors (the “old”) to trade with subordinates (the “young”). In addition, contemporary China also seems to illustrate something that Tullock, here following Mancur Olson, seems to have neglected: the potential importance of mass action as a source of instability for the regime.

Then I turn to another Asian country that also interested Tullock: Japan. I look at the mechanisms of control used under the Tokugawa Shogunate (1603–1868) and show that it provides a nice, if extreme, illustration of autocratic paranoia: the people under that system appear to have been, if anything, over-controlled. I then discuss one of the most famous *coups d'état*, and one of the most consequential events in the history of government, the Meiji Restoration, which brought the Tokugawa regime to a close. I ask what gives rise to a situation where the dictator cannot protect himself from the people under him in the way Tullock suggested. In this manner, I explain why *coups d'état* actually occur. Essentially the Meiji coup occurred because over-control made the state weak, and a weak state is unable to make credible offers to those below. I also discuss the consequences of the peculiar constitution adopted at Meiji for Japan's subsequent history. The flaw in the Meiji constitution was that only the Emperor, and not the civilian regime, had power over the military. So Tullock's solution of “overpaying” individuals and groups who were potential threats to the leader could not be implemented under these circumstances. Analytically, the problem of the civilian leadership there resembles that facing CEO's in the US financial crisis of 2008: since the old could not control the young, the young had no incentive to monitor and check the old. In the case of Japan, the consequences of these and other weaknesses were further attempted *coups d'état* by the military in the 1930s, and ultimately Japan's Pearl Harbor attack on the United States.

2 Tullock: the dictator's dilemma and the coup d'état

Gordon Tullock was always interested in the subject of dictatorship:

“I've been concerned about the problem of dictatorship for almost as long as I've been interested in Public Choice. Indeed my first work on what now is thought of as Public Choice was undertaken while I was in Communist China, and I was thinking more about the government there than I was of democracies....” (Tullock 2005: 294)

Though he says, “I do not have a general theory of dictatorship or a general theory of how dictators stay in power” (Tullock 2005: 294), Tullock was the first economist to understand what I call *the dictator's dilemma*, the idea that the dictator, having no legitimate or agreed—upon mandate to stay in office, will tend to be preoccupied with his own survival, and with various threats to that, real or imagined.

“... in a very real sense a dictator lives in a state of nature. He is not the owner of important assets in a well-run state. There is no overwhelmingly powerful state which can protect him. What he needs to be protected from are parts of the state. All this makes his life dangerous and in many ways unpleasant, but presumably the dictators regard the advantages to be greater than the disadvantages.” (Tullock 2005: 303)

Among the methods, listed by Tullock, with which the dictator can maintain his power are: (1) preventing others from getting positions of firm power, for example by rotating high

officials around so that they never develop a loyal following in whatever job they hold; (2) making sure that the army is under his control by either adopting personal control of it or fixing it so that there is no true commander, but rather a number of officials with titles such as Minister of War, Chief of Staff, etc.; (3) “a lot of pompous ceremony surrounding the dictator is a good idea” and (4) “cutting off the heads of the tallest flowers” (disposing of people who are rising in power and influence) (Tullock 2005: 304–305).

The dictator’s dilemma was first (to my knowledge) discussed by the ancient Greek philosopher Xenophon, in his dialogue *Hiero or Tyrannicus*, in which the tyrant complains of his lot, in particular, about the fact that he cannot trust anyone: “we know as a matter of course that those who serve through fear try by every means in their power to make themselves appear like friends. . . . And what is more, plots against tyrants spring from none more than from those who pretend to love them most (Xenophon, reprinted in Strauss 1963/1991: 5).”

In my own work (Wintrobe 1990, 1998) I related the dilemma to the use of repression by the autocrat. The use of repression breeds fear on the part of a dictator’s subjects, and this fear breeds a reluctance on the part of the citizenry to signal displeasure with the dictator’s policies. This fear on their part in turn breeds fear on the part of the dictator, since, not knowing what the population thinks of his policies, he has no way of knowing what they are thinking and planning, and of course he suspects that what they are thinking and planning is his overthrow. The problem is magnified the more the dictator rules through repression and fear. The more his repressive apparatus stifles dissent and criticism, the less he knows how much support he really has. So the natural state of the dictator who rules by fear is paranoia, and dictators throughout history have been afflicted by this problem. To solve it, dictators do not rule by repression alone but through loyalty and political exchange. They may be unlike democratic politicians in their use of repression, but, like democratic politicians, they try to implement the policies they think their people want in order to obtain support for their rule.

The *coup d’etat* is a special case of the dictator’s dilemma, in which the dictator is overthrown via a palace revolution instead of by the mob or other force external to the administration. Tullock thought the *coup d’etat* is typical of the way dictators fall. This derives from his analysis of revolution, in which he adopts Olson’s (1971) free rider perspective: the masses have no private incentive to revolt. No matter how large the estimated gains from revolution might be, these are a public good, whereas the costs of participation are private. So, individuals do not have any incentive to participate unless they receive some private benefit from doing so. In this way of thinking, regimes fall due to internal, not external dissent, and the dictator does not fear the mob but the palace, i.e., those in his administration and especially in the army.

Tullock has a good analysis of how the dictator can avoid the *coup d’etat*. In order to solve the problem, he suggests that the dictator has to bribe or overpay the people on whom he is dependent. As he puts it, the problem facing the dictator is to pay each person who is in a position to threaten him in such a way that the expected benefit of revolt is always negative (Tullock 2005: 284). But, as Tullock also points out, this way of putting it ignores a social interconnection—the benefits of revolt to each individual depend on the number of others who are doing the same thing. So an individual is more likely to revolt when he thinks others are planning to do so. There is a Schelling point where a sufficient number of people decide to revolt (Tullock 2005: 298–299). Avoiding this might be called *the dictator’s palace dilemma*. Tullock analyzes the problem in a simple but compelling way and we see the essence of the dictator’s problem.

3 A related problem: internal governance in firms

Now let us look at a related problem: that of internal governance in the firm, the modern, widely held corporation in particular. Like a dictator, the CEO of a modern corporations does not face much of a threat from external forces—he is unlikely to be removed by a shareholder “revolution”. Why does he not just loot the firm? Of course, in 2008 it appeared that this is exactly what many CEOs did, but hopefully this was an exception and on the whole corporations seem to be governed at least adequately. Many think that what disciplines the CEO is the prospect of a hostile takeover if he performs badly, but the literature has become skeptical of the efficiency of this mechanism. The problem is the *free rider problem* again, this time in a different disguise. The CEO of a modern corporation also faces an internal governance problem (indeed he too could become the victim of a *coup d’etat*). In all these respects the problem of corporate governance resembles the problem of governmental governance. And in both cases there is also the reverse question: What makes governing politicians responsive to their voters? Or, in the case of dictatorship, what prevents the dictator from “looting” the regime, in the manner of Olson’s (2000) stationary bandit?

Let us look at the corporation first. Does the threat of a takeover discipline the CEO? It turns out that the mechanism is flawed, theoretically because of the free rider problem (first pointed out by Grossman and Hart 1980 and elaborated in Bradley 1982) and empirically, as the large literature which followed Bradley demonstrated (see Varian 1988). A takeover “artist” who bids for a firm which he believes is badly managed, and therefore whose stock price is believed to be low, and who hopes to buy a controlling interest in that firm and to profit by the increase in the stock price resulting from the replacement of inefficient management with efficient management, will find that shareholders will free ride, in the following way. They hope others will sell, so that the takeover takes place but they themselves would like to share in the post-takeover profits and therefore free ride by holding on to their shares. Since all shareholders will reason this way, they will only sell, and the takeover succeed, if the bidder offers the entire expected post-takeover improvement in the stock price to shareholders of the target firm, thus wiping out any gains to the bidder. Numerous studies provide striking evidence that a substantial premium (50%–80%) has to be paid to the shareholders of the target firm in order for the bid to be successful, thus providing dramatic empirical support for this point.

Another argument for solving the principal-agent problem that became popular is the tying of the CEO’s compensation to the stock price through stock options. The idea was that this would align managerial interests with those of shareholders. But neither the possibilities of fraud (e.g., that the manager could take actions to artificially raise the stock price), nor the fact that relations between the executive and the board are not usually at “arms length” (in most cases in the United States they are more simply characterized as “cronyistic”) nor the political influence of corporations, were taken into account in developing these ideas. The rapidly developing literatures on public choice or transaction cost economics were not consulted or used in developing the new theory of executive compensation. Instead, following the classic article by Jensen and Meckling (1976) on the subject, the problem of executive compensation was treated as a pure principal and agent problem with the shareholder as the principal and the executive as the agent.

Nevertheless, the idea caught fire, and the percentage of executive compensation tied to stock prices, and the level of executive compensation, have mushroomed in recent years. So have all kinds of corrupt practices. There has been, of course, simple fraud, such as Enron’s accounting (described in detail by Lowenstein 2004). Another practice that was particularly revealing of cronyism was the “repricing” of stock options when the stock price

declines (Cassidy 2009). Cassidy (2009) points out that “The chip company Advanced Micro Devices. . . repriced the options of its founder, Jerry Sanders III, no fewer than six times, allowing him to make untold millions of dollars while his firm’s stock performed modestly. The software company Oracle followed the same practice. In 2000, Larry Ellison, Oracle’s already wealthy founder, made seven hundred million dollars by cashing in some low priced options shortly before his firm’s stock price collapsed.”

As a consequence even Michael Jensen, one of the original proponents of the idea (see, e.g., Jensen and Murphy 1990) has backed away from it. In his latest thinking on the subject, he has gone so far as to suggest that stock options grew so large that managers became “addicted” to ever increasing pay (Jensen 2005). After all of these things came crashing down in the financial crisis of 2008, the notion that ever-increasing executive compensation is the simple consequence of benevolent market forces, and an effective solution to the separation of ownership from control, no longer has many adherents.

So, if neither the prospect of a hostile takeover nor the manipulation of executive compensation to reflect stock prices motivates corporate managers to be efficient, what does?

A new idea in this literature, which is related to the basic story in this paper, is that the main check on the manager comes from “internal governance”: the need to keep his subordinates faithful and motivated. As argued by Acharya et al. (2008), it would always appear to be in the CEO’s interest to extract as much profits as he can now, i.e., to “loot” the firm to the extent that he is “older” or “at the top” (we will use these terms interchangeably) and will retire relatively soon compared to those “younger” or under him. But if the CEO were to claim all of the available profits now, the firm will lose its value and there will be nothing left for the “young” (his subordinates) when they come to power. However, the old need the young, since through their effort and loyalty they can raise the value of the firm today. There are many ways in which superiors depend on subordinates: they need accurate information, they need subordinates to take initiative when required, and they need them to look out for the interests of the firm and not simply for ways to feather their own nests. So there is a “trade” possible between the two groups: the old agree to take less than they could and maintain the value of the firm in exchange for the cooperation, effort and loyalty of the young.

For the moment, it is worth noting that the same argument explains some of the weaknesses in the corporate system. When does this mechanism break down? One circumstance pointed out by Acharya et al. (2008) is when younger managers have no “stake” in the firm and could go elsewhere at the drop of a hat. A nice illustration of this is the New York investment banks, where good younger investment managers are always on the lookout for better pay and are often “poached” by other firms. This means that the young have no incentive to monitor the old, and this mechanism of control over the CEOs breaks down. This explains both the behavior of the firms during the 2008 crisis, and why the CEOs of those firms continued to pay enormous bonuses to the traders after the 2008 crash, even in the face of massive public opprobrium.

So, in this analysis of corporations we are looking not at the “old” disciplining the “young” to prevent a *coup d’etat* (as in Gordon’s analysis of political dictatorship), but the reverse problem: the young disciplining the old managers of the firm to prevent them from looting it. Now, exactly this same problem occurs under dictatorship: in that context it is the dictator who is relatively “old” and who, unchecked, would have a tendency to “loot” the regime. In fact, this is precisely what Olson’s (1993, 2000) theory of the dictator as stationary bandit predicts dictators do: they maximize the profits they can extract from their subjects, restrained only by the fact that if they make them too poor, there will be less revenue for the dictator to “take” in the future.

However, there is a problem with Olson's analysis, as has been pointed out many times, and which I have discussed elsewhere (Wintrobe 2007). While it fits some dictatorships, such as Papa Doc's Haiti or Mobuto's Zaire, it does not fit others, such as the former USSR or Communist China up to the present. One can quibble about the statistics in the former USSR, and the statistics provided by the Chinese dictatorship are not inspirationally reliable, but there are few today who still question the growth orientation of the Soviet regime under Stalin, or that of the Chinese leadership over the last 25 years or so. Why doesn't the Chinese leadership act in the manner of Olson's stationary bandit and loot the regime? Olson himself recognized this general issue and his own solution was that some regimes have a long time horizon. He suggested that regimes like this were the best from the point of view of economic growth. But there is a deep flaw in this argument. This is that the longer the time horizon of the dictator, the more he will tend to try exploit and remake the citizenry, with consequences that are unknown but usually not salutary for them.¹ All of the worst dictatorships in human history—Nazi Germany, the USSR, Cambodia—have had long time horizons, and they inflicted much greater hardships on their people than the simple "wealth maximizing" or "tinpot" types, who may loot their subjects but otherwise leave them alone. And there are other dictatorships whose leaders appear to have long time horizons but whose economic performance is unimpressive, the most obvious example of which is contemporary Iran. So while some of these regimes may have been "good" for economic growth, others were not, and one cannot suggest that in general this type of regime is better for its people.

The solution which can be abstracted from Acharya et al.'s (2008) analysis of the firm is that what prevents the dictator from exploiting the citizenry in this way is the need to retain the loyalty, effort and cooperation of those under him. In turn, those at the level below the top are similarly constrained by those underneath them, and so on down the hierarchy. What makes these "trades" between young and old possible? Under what circumstances can they take place, and when do they fail to do so?

In the next section we will see how this potential struggle between the generations played itself out in two important examples of countries with very different institutions, and at different time periods. Our goal is to show how what happened in those cases can be traced to the way they solved or did not solve this conflict. I will suggest that in China, the Chinese communist party provides an institutional means whereby "trades" between the old and the young are facilitated, and this is partly what explains its spectacular growth performance. On the other hand, Japan in the Tokugawa period provides an interesting illustration of a situation where the dictator was so preoccupied by the Dictator's Dilemma that the people below were overly controlled and the result was a backward looking political regime. A different problem arose in Japan in the 1930s, related to the peculiar Meiji constitution, which was brought in after the fall of the Tokugawa regime. Under that constitution, the military were responsible only to the emperor, and not to the civilian authorities, and so those authorities essentially had nothing to offer the young to gain their loyalty, while the Emperor himself was too removed and too weak to deal with them. So the military remained uncontrolled, and, more subtly, they had no incentive to monitor their superiors, and the consequences were tragic.

The next two sections expand on these "Asian applications".

¹ However, this doesn't apply to the firm, which has no corresponding ability to remake, exploit or murder the citizenry.

4 Two Asian applications

4.1 China

As mentioned at the beginning, Tullock also had a big interest in Asia. He spent a number of years in China and a briefer period in Korea as a diplomat. From his own brief biography “I was sent to Tientsin, China shortly before the Communists captured the place. After a year I was sent back to the United States, and was sent to Yale and Cornell to study Chinese. I then went to China as vice consul. I was transferred to our embassy in Korea, and after about a year I returned to Washington. I resigned in order to write a book...”²

The rest, we could say, is history.... Tullock went on to write more than 20 books, including *The Calculus of Consent*, with James Buchanan (1962), a book which probably more than any other launched the field of Public Choice.

Now it is hard not to be interested in contemporary China. The first and most obvious fact about China today is its spectacular economic performance. How is it that the Chinese dictatorship has performed so well? It is not simply because it is a dictatorship. There are other dictatorships, too numerous to mention by name—but the outstanding examples might be Iran, Burma, Haiti under the Duvaliers, Zaire under Mobutu—whose economic performance is unimpressive to say the least. In general there is no evidence that dictatorship is more economically efficient than democracy, and no theoretical reason for believing this might be true, though a number of economists have advanced this idea.³

The question remains as to why *some* dictatorships are able to outperform in terms of economic growth and China is currently the country which piques the most interest along these lines. Here I will suggest that the reason is that intergenerational links in the Communist Party facilitate exchange between the young and the old. But first let us look at some other explanations.

To begin with, there is some historical or cultural basis for this in the historical nature of Chinese society. The philosophy of Confucian rule was based on the five relations: 1. Father obeys ancestors. 2. Son owes duty to father. 3. Wife to her husband. 4. Younger brother to older brother, Younger friend to older friend. 5. Entire family to the ruler. So culturally the generations were linked by the duty of the young to obey the old, and the paramount duty of everyone to obey the Emperor (Finer 1997: 459).

However, the explanation for China’s superior economic performance cannot be entirely cultural, or China would never have fallen behind the West in the first place. Thus, we are drawn to another explanation. One part of this is surely that under Deng Xiao Ping China embraced capitalism and freed up entrepreneurship and individual enterprise. But that still leaves the question of why the marriage between capitalism and dictatorship works well (in terms of generating economic growth) in China but not in other places (the most obvious other examples of “state led capitalism” were found in 1970’s Latin America⁴). No one believes in Communism any more. Why do the young support the regime? After Tiananmen Square, one can see why they would not want to openly oppose the regime. But that is different from supporting it. And one would not expect a surly, downtrodden class of alienated youth to generate the fantastic growth performance which China has exhibited since that event.

²From the biography at http://www.worldscibooks.com/socialsci/7031_gordon.pdf.

³I have surveyed this literature elsewhere (Wintrobe 2007).

⁴Baumol et al. (2007) argue that the role of the state is similar in the two cases.

Now, it is easy to laugh at the idea that the Communist Party can promote economic efficiency. But it is worth remembering that at one time, its efficiency (if not necessarily its values), even in the former USSR, was widely admired. Economic growth in the former Soviet system was more than respectable by world standards until the 1970s at which time the regime seemed to slow down and ultimately collapse. The reasons for this collapse are obvious in hindsight, but it is worth remembering that it came as a shock to almost everyone except those who had been consistently and wrongly predicting it would happen for over 50 years.⁵

Here we offer a speculation about why the marriage between the Communist Party of China and private business is so successful in promoting economic growth. Under classic communism such the Former Soviet System or the contemporary Cuban one, the economic system is effectively bureaucratized. Now, bureaucracies which operate on the basis of rules and regulations are inherently inefficient because there are always numerous unplanned or unforeseen contingencies and either these must be dealt with by having them reported up the chain of command to someone with the power to deal with them, in which case there may be massive control loss,⁶ or by delegating power to subordinates the power to use their own initiative to deal with them, in which case it is not obvious why they would do this appropriately. Thus, just like the corporation in the analysis of Acharya et al. sketched above, those at the bottom (the young) must be motivated to use their initiative loyally, and they must be convinced that they will be repaid for doing so. Since there is no way these exchanges can be legally enforced within a firm or bureaucracy they must be based on trust and the young must be convinced they will be repaid later for their efforts and loyalty today.

The Communist Party facilitates this exchange because it acts as a guarantor that promises from superiors to subordinates will be kept, and it monitors and rewards or punishes the activities of subordinates separately from the bureaucratic hierarchy of the firm. That is, it operates as a vertical network with exclusive membership, rewards for participation and loyal effort, and so on.⁷ In this way the Communist Party substitutes for enforceable property rights to solve the problem of mutual cheating which is characteristic of exchange when law based property rights are absent. The old implicitly trade with the young: that is, the old provide future-oriented policies such as a massive emphasis on economic growth in exchange for loyal support and performance by the young.

The Communist Party provided this intergenerational link in both the Soviet and Chinese cases but the problems in the former Soviet system were, first of all, that the economy was crippled by central planning, and, secondly that there was no way to get the old to retire, and the Party to renew itself except through the Party purge, a clumsy, inefficient and unpredictable tool for this purpose. When (after Stalin) the top no longer had the stomach or the power to renew itself in this manner, the top became crowded with the old and corrupt (under Brezhnev) and the system collapsed from arteriosclerosis, as discussed elsewhere (Wintrobe 1998).

Mao made similar attempts to renew the Chinese system in this way (most famously in the *Great Leap Forward* and in the *Cultural Revolution*) but, again, this instrument of renewal is obviously crude and unreliable and these attempts backfired. After 1980, under Deng Xiao Ping, a number of devices were adapted for party renewal, including the institution of mandatory retirement from the party and mandatory retirement of government

⁵In my book on dictatorship I discuss this issue at some length (Wintrobe 1998: 197ff).

⁶Control loss in the context of bureaucracy was first discussed by Tullock (1965) in his book on bureaucracy.

⁷I discussed these issues in more detail elsewhere (Wintrobe 1998: 65ff, 219ff).

officials. But the most important change was obviously the abandonment of central planning and the adoption of the “socialist market economy” in which individual enterprise was permitted and China opened up to foreign investment and trade. External links between the party and domestic and foreign private business through the adoption of the capitalist way, acted as a further check on the power of the center.

A related idea about how some dictatorships can work effectively to promote economic growth has been advanced by Armando Razo (2009) with respect to the Portorfiro Diaz regime in Mexico. Razo’s idea is that the Diaz regime stayed in power by forging mutually beneficial links with important groups, such as businessmen and politicians; he documents the interrelationships of the Diaz regime exhaustively using historical and social network analysis. He shows two things: first that the networks are what enables the regime to survive in power and to grow economically and secondly, and more subtly, that the networks acted as a constraint on the dictator: in his language they serve as a mechanism that enforces the commitments of the dictator and serve to check on his power. The Chinese regime in its embrace of capitalism presumably operates in that way as well, (as suggested by Gehlbach and Keefer 2009). An analysis of the networks of the Chinese leadership could be very illuminating!

One important way in which Tullock’s analysis does not seem to apply to China is that the leadership there appears to live in fear of mass rebellion, not just of a *coup d’etat* (Shirk 2007). Why are they nervous? It is not hard to understand: There is first of all the history of China in the twentieth century which is in large part a history of rebellions which brought down the previous regimes there in 1911 and 1949. Secondly there is the recent history of East Asia—where one after another autocrat has fallen: in South Korea, Thailand, Indonesia, and so forth. Thirdly, the leadership cannot be unaware that all the other communist regimes had fallen this way, starting with the demonstrations in Leipzig. And finally there was the domestic rebellion in Tiananmen Square in 1989.

Secondly, there are the tensions caused by dramatically increased inequality (Gustafsson et al. 2008), entrenched corruption and environmental degradation (Shirk 2007). Indeed there are widespread protests and demonstrations over these issues. In fact in part the regime encourages them (Shirk 2007). The reason is obvious: not only to give people an outlet for their frustrations and to defuse tensions but also to find out what is happening with the people. Demonstrations and protests, provided they do not get out of hand, are important channels of information to the leadership, which help them to counter the dictator’s dilemma.

But Tullock’s approach may very well be right in the sense that as long the leadership hangs together (and growth continues to be spectacular), they are safe.

4.2 The Meiji restoration in Japan and its consequences

Now let’s turn to Japan. After the fall of the Imperial regime in the 12th century, a central government called the Shogunate assumed control of the country, but its rule progressively weakened from the 14th century onwards and by the *Sengoku* (“Warring country”) period (1573–1603) the *Daimyo* (warlords) recognized no common superior. Over this period, Japan was increasingly characterized by constant fighting among the warlords until Hideyoshi subdued them and the Tokugawa shogunate was formally instituted by Ieyasu in 1603. In 1639 the regime was officially closed to virtually all foreign intercourse. The Tokugawa Shogunate lasted until 1868, when it was overthrown in a *coup d’etat* known as the Meiji Restoration.

What kind of regime was the Tokugawa Shogunate? It was *despotic*, according to Samuel Finer in his magisterial *A History of Government From The Earliest Times*: “Effectively the

shogun was a despot; that is to say, there was no power or authority, legal or physical, which could check the exercise of his will wherever he chose to exert it” (Finer 1997: 1094, cf. Morton and Olenik 2005: 120ff).

To see what some of these mechanisms of control were, let us begin with the shogun’s control over the daimyo (the equivalent of European dukes and counts). Finer (1997: 1096) asserts that “Shogunal control over the daimyo was absolute and complete.” It is not difficult to see why he says this, for among the mechanisms of control used we can mention the following:

1. The daimyo had to keep his wife and children, household officials and numerous retainers at Edo (now Tokyo), the shogun’s capital, throughout the year, effectively as hostages.

2. The practice of *Sankin kotai* (alternate attendance): “every daimyo had to come to the capital every year (sometimes alternate years) accompanied by quite enormous trains of servants and retainers, and reside there for six months, during which time he had to attend monthly audiences so as to keep himself in view of the shogun, who looked on in silence from behind a screen.”

3. Finally, the shogunal court employed a corps of *metsuke* (‘spies’ or informers), who might visit or temporarily live in the daimyo’s court, and would then report back to the shogun (Finer 1997: 1096–1097).

Next, note that the relationship of authority between the shogun and the daimyo is repeated at lower levels, a system which Finer refers to as “stepped despotism”:

“That absolute obedience to one’s superior ran all the way up to the shogun at the peak of the feudal hierarchy, and by the same token his despotic authority reached all the way down to its base.” (Finer 1997: 1094)

Japanese feudalism differed from Western feudalism in that all relationships in Japan were vertical: “it is the verticality of the feudal relationship in Japan and the absence of a corresponding “horizontality” (i.e., the notion of contract) that distinguishes Japanese feudalism from Western Europe’s (Finer 1997: 1080). Moreover “the Japanese feudal tie was not a quasi-contract between equal parties. It was a relationship of ‘submission’ freely entered into by an inferior with his superior” (Finer 1997: 1090, cf. also p. 1092). There were no checks on the power of a superior over a subordinate. For example, there was no judiciary and there is no way a vassal could appeal a decision of a superior up the chain of command: Tokugawa feudalism consisted in the subjection of inferior to superior at every level of the feudal pyramid, without right or possibility of appeal, up to the very top (Finer 1997: 1097).

The system of control was completed by the successive expulsion of Christians, the Spanish and the Portuguese and finally by the sealing of the border to any outsiders in 1639, at which time Japanese were also prohibited from leaving the country and executed if they did so and then returned. Thus during the Tokugawa period (1600–1868) the regime was effectively cut off and isolated from the outside world. So the Tokugawa regime did not have to fight any wars, and therefore, unlike the Princes in Europe, its leaders didn’t have to worry about raising revenue for this purpose. In turn, this meant that there was no need to devolve power to the people via any representative institutions, in the way in which the cash-starved European Kings sooner or later felt compelled to do, beginning with the Glorious Revolution in England in 1688. So a potentially dissident daimyo could not count on any foreign help, nor could he enlist opposition from the Church or the law courts or the merchants and bankers as in Europe.

Next let us look inside the government, a nice further reflection of Tokugawa paranoia. Thus,

Only one post might be held by one sole individual: the Shogunate. All others were organized so that every official was yoked to, spied upon, and constrained by others of the same rank. So, important posts were always held by at least two persons alternating in office, for example, ... two commissioners to govern a town. ... But there was more: each member of a board assumed, on his spell of active duty, all executive powers of the entire board, *but* whenever he wanted to act he had to collect the co-signatures of his colleagues before his decisions could become valid (Finer 1997: 1104).

As a consequence “The internal organization of these departments and boards from the *roju* downwards was grotesquely dysfunctional” (Finer 1997: 1106).

As for village life in the *han*, there too the people were “governed under such severe security measures and a meticulous control system which regulated the status, residential location and the comings and goings of every resident” (Finer 1997: 1118).

However, according to Finer the regime was not totalitarian: the people were controlled, but they were free to enjoy themselves so long as they refrained from threatening the regime, and there were no attempts to mold their personalities or demands for their participation in politics, as is characteristic of modern totalitarian systems. So it was authoritarian (tyrannical, in my 1998 classification) rather than totalitarian. Indeed Japan during this period seems to be among the most hierarchical societies the world has ever known. But it was peaceful, and prosperous. It was “a police state with tight supervision, organized to preserve as closely as possible the status quo” (Morton and Olenik 2005: 121).

The oddest thing about the Tokugawa regime is this. The military (*the samurai*) controlled the government. Indeed, it was a government “of the samurai, by the samurai and for the samurai” (Finer 1997). However, foreign intrigues were not a problem because, as noted above, the regime cut itself off from the rest of the world, and maintained this isolation successfully for 250 years. Domestically the people were so carefully controlled that in the end there was little internal opposition to the regime either. The consequence was that, after a while, there was nothing for the military to do. Slowly, therefore, the *samurai* lost importance, and the army, once huge by the standards of the time, became smaller and smaller. Technologically the military even took giant steps *backwards*. In perhaps the most remarkable development, when Dutch traders at Nagasaki gave the Japanese some of the new European flintlocks in 1836 the Japanese found they had no real use for them and rejected them, preferring the poetic and symbolic sword of the Samurai. So when Admiral Perry sailed into Edo bay in 1853, he confronted the Japanese armed with ... swords and old fashioned muskets.

In addition, the caste system, aimed at keeping the samurai on top and the merchants in their place, was increasingly out of step with economic developments. The merchant class had become progressively more important as the long period of peace and the absence of conflict allowed trade to flourish internally even though they were cut off externally (Morton and Olenik 2005: 127ff).

To summarize, the regime was successful in that it ruled peacefully for 250 years, and apparently exercised close control over its subjects. But this was at the cost of becoming backward technologically. The leaders of the Tokugawa Shogunate tried to eliminate every possible source of instability and this ultimately made the regime dysfunctional. The appearance of Admiral Perry’s ships in 1853 exposed the weakness of the regime, and this humiliation helped to set in motion the forces which resulted in the *coup d’etat* known as the Meiji restoration. Paradoxically, it appears as if under Tokugawa, the old controlled the bottom only too well and the state became weak as a result.

I have argued elsewhere (Wintrobe 2006: Chap. 7) that this variable—the weakness of the state—is central to explaining revolutions. Indeed, the weakness of the state simply explains the coup of Meiji. Tullock himself suggested as much: “if the regime is showing signs of weakness or ineptitude in one field, this may indicate that it will also be weak and inept in dealing with the coup: hence this is a reason for ambitious men to think in terms of replacing it (Tullock 2005: 281). He also noted on the same page that one important condition for a successful revolution is that there is a person or group who can turn themselves into a viable alternative (a Schelling point, i.e. a point around which opponents to the regime can rally round) to the existing regime. Tullock interprets the presence of the emperor in Japan in this manner (Tullock 2005: 290).

The Meiji restoration which succeeded the Tokugawa regime in 1868 is sometimes referred to as a revolution, sometimes as a *coup d'état*, sometimes as a restoration.⁸ The Meiji forces claimed that the Tokugawa Shogunate had usurped the power to govern from the emperor, and the Restoration returned the emperor to the throne. The term “revolution” is also appropriate because of the magnitude of the change in regime and in view of the subsequent radicalism which stemmed from the new constitution, about which more below. But viewed in terms of the distinction we have been making between a mass revolution and a *coup d'état*, the Meiji restoration is surely a *coup d'état*. There was no mass action, but the old regime, the *bakufu*, was overthrown. And Japan entered the modern world. Article 5 of the Meiji constitution specified that “Knowledge shall be sought throughout the world so as to strengthen the foundation of imperial rule” (as cited in Morton and Olenik 2005: 148) and indeed, industrialization took place very rapidly over the next 50 years.

However, the new Meiji constitution was peculiar, in that the Emperor was declared supreme but did not rule. “The emperor... was never a dictator in the European sense. [He] was not supposed to be directly involved in politics; he was expected to stand above worldly affairs, while a bureaucratic elite made political decisions in his name. At the same time, Japan’s armed services owed their loyalty only to the monarch and not to the civilian government” (Buruma 2004: 39). The military were declared not subject to the political authorities, only to the emperor. The idea was to unify the government—i.e., to create a single vertical link at the top. But the result was a weak civilian regime in terms of control over the military. As to the emperor himself, he was not merely divinely sanctioned, *he was declared divine*⁹ in a ceremony rife with pageantry and symbolism. Previously the Emperor had not been worshipped in this way (Buruma 2004: 39, Finer 1997: 1101).

The next step in this direction was taken in 1882, when the emperor handed down a *Rescript for soldiers and sailors*. This rescript spelled out the duties that every Japanese soldier and sailor had to learn by rote. Absolute loyalty was due only to the Emperor: “We are your supreme commander in chief. Our relations with you will be most intimate when We rely on you as Our limbs and you look up to Us as your head” (quoted in Buruma 2004: 55).

Because the military were subject only to the emperor, they were uncontrolled by the civilian regime. And because the emperor did not rule, but in all other areas was more of a figurehead, it was difficult for him to use his influence in the one area where he alone had power, namely over the military. In an important sense the military was constitutionally unfettered and they began to do what the military do best, namely, provoke war.

The result was a succession of wars beginning with China in 1895, then Russia in 1905. The newly industrialized and militarized Japanese began to flex its muscles and show the

⁸ See the article on the “Meiji restoration” in Wikipedia.

⁹ He was forced to renounce his divinity after World War II.

west that they were not inferior. The flawed constitution became fully apparent in the 1930s as the depression hit Japan particularly hard, and many in the army blamed the integration of Japan into the international order for this. The army men were totally opposed to the cooperation with the international order which seemed inevitable to the party politicians and the businessmen but which to the young officer group in particular appeared as “the malign source of the depression and all the evils that had swept over the country” (Morton and Olenik 2005: 176). The military, never trained to consider the military power as subordinate to the civilian government, began a systematic campaign to reinterpret the constitution in such a way as to give them control over the public affairs of the country (Bix 2000: 295ff).

In 1931, a bomb was set off by Japanese soldiers in Manchuria, who then blamed the Chinese troops there for the “sabotage” and proceeded to attack them. Within six months much of Manchuria was in Japanese hands. The prime minister of Japan at the time, Wakatsuji Reijiro, favored conciliation with China but had no control over the armed forces who were pushing towards war. He resigned and was replaced by Inukai Tsuyoshi, who attempted to stop the escalation, and was gunned down by navy fanatics in his own house. The subsequent trials of the army and civilian extremists responsible for this and other incidents were used as platforms for the statement of their views and the sentences passed were often very light. It was felt that their patriotism justified their acts of terrorism (Morton and Olenik 2005: 181; Bix 2000: 285). Thus in case after case during the 1930s where the military overextended themselves the emperor Hirohito did not intervene, or if he did intervene, his “orders” were often ignored or sabotaged (Bix 2000: 284ff).

After the assassination of Inukai most of the prime ministers between 1932 and 1945 were military officials. But even they were not in control, for on what authority could they act? In February 1936, junior Imperial Way officers tried to take over central Tokyo, assassinating the Finance minister and attempting to assassinate the Prime Minister. At this point Emperor Hirohito finally acted, calling in the Navy to restore order. He was successful in this, but the military now demanded that subsequent cabinet ministers be approved by the army and navy ministers (Buruma 2004: 84–100). War with China, though never officially declared, began with the “China Incident” in July 1937. In December 1937 the infamous Nanking massacre occurred, a ferocious attack on a largely defenseless population, in which hundreds of thousands were murdered. This massacre was followed by a number of others. The reasons for the explosion of brutality have never been fully explained, but one part of the explanation was that

It was also a sign of a hopelessly flawed chain of command, where thugs in the field overruled their superior officers, junior officers in Tokyo intimidated generals, and chiefs of staff bullied civilians bureaucrats and the imperial court. (Buruma 2004: 106)

The Japanese attack on the United States at Pearl Harbor is similarly shrouded in mystery. Indeed, it is not clear that anyone at senior levels in the government or the military thought they were likely to win, but they felt helpless to oppose the movement towards ever more extreme measures (Bix 2000; Buruma 2004: 115). Among the myriad causes of this attack historians have stressed, not a dictator’s megalomania, but weakness, even paralysis, at the highest levels of Japanese government. As Buruma (2004: 117) notes “The ultimate price was about to be paid for having destroyed the authority of civilian government”. In our terms, it was a case of the bottom completely escaping the control of the top.

5 Conclusion

Gordon Tullock always thought in a different direction than anyone else. Tullock was right about the importance of understanding the dictator's insecurity in office for comprehending the behavior of dictatorship. This approach is particularly central to understanding the behavior of leaders of the Tokugawa regime in Japan, who implemented controls on their people so stringent that the regime itself became immobile, though it survived for a very long time. Another example is the contemporary Chinese regime, which never appears to lose sight of the dictator's dilemma, particularly after Tiananmen Square.

Tullock's analysis of the *coup d'état* is insightful. He suggested that those at the top could control those at the bottom with a proper system of incentive payments, and showed in a thoroughly contemporary way how the size of those payments also depend on social interactions: people are more likely to revolt, the more they think others might be willing to do so. Taking this into account, a dictator can try to insulate himself from a *coup d'état* by structuring the rewards and potential punishments to those under him so that the net benefits to rebellion to those below is always negative.

Here we have asked the reverse question, not what keeps those at the bottom from rebelling, but what keeps those at the top from looting the regime? We began by noting that shareholders of the modern widely held corporation face a similar problem: what keeps the CEO from looting the company when the market for corporate control is flawed, shareholders are too weak to exercise discipline, and the board is in the CEO's pocket? Following Acharya et al.'s analysis, I have suggested that the control mechanism is to be found in "internal governance": the CEO needs the loyalty, effort and cooperation of those under him to keep the firm profitable, and they in turn want the firm to remain so when the time comes for them to take over. So the superior not only checks, he is checked by his subordinates. A similar idea can be applied to dictatorship, and I have expanded on this analysis to explain some of the circumstances which prevent dictators from acting in the manner of Olson's "Stationary Bandit".

The idea also explains when governance fails: when the young have no stake in the firm, as appeared to be the case in the US investment banks or corporations in the 2008 financial crisis, or when the old cannot control the young, as the civilian authorities could not control the military in Japan in the 1930s. By contrast in Tiananmen Square the Chinese regime showed young people what would happen to them if they openly opposed the regime, and post-Tiananmen Square the young have learned that if they work within the system, Faust-style, they can prosper, since the system is geared for economic growth. Of course Faust came to regret his decision.

We have also expanded on Tullock's analysis to ask under what conditions the dictator might somehow be prevented from implementing his solution to the *coup d'état* problem, thus explaining why *coups d'état* actually occur. The basic reason is the weakness of the state. Japanese history provides two interesting illustrations of this: first the Tokugawa regime, where the people were over-controlled. The state became weak as a result and this weakness was exposed by the visit of Admiral Perry. Second, the Meiji constitution, implemented after the fall of the Tokugawa state, and which was a peculiar blend of oligarchy, theocracy and democracy. It was flawed in that the constitution tied the hands of the civilian regime from controlling the military. They only obeyed the emperor, who was too weak to give instructions and see them carried out, and this left them free to take actions which interpreted his divine "will". So the *coup d'état* of Meiji, because it left the military uncontrolled, provoked the military into assuming an ever greater role in the country and a succession of wars ensued, beginning in 1895, and escalating to the attack on Pearl Harbor in 1941. The

Japanese problem after Meiji was that the military (the young) had no incentive to offer their loyalty to the old (the civilian regime), so the young acted on their own. The problem was the reverse of the Tokugawa regime: the Meiji constitution left the bottom with too much control over the top. There was no formal *coup d'état* but a number of coup attempts were made and *de facto* the military increasingly constituted a state within a state. This reversal of authority apparently continued down the chain of command, ultimately with tragic consequences.

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