

EMERGENCE AND CONSOLIDATION
OF DEMOCRACY

Daron Acemoglu

Department of Economics

MASSACHUSETTS INSTITUTE OF
TECHNOLOGY

October 13, 2005

Taking Stock

- Lecture 1:
 - Institutions matter.
 - The role of social conflict and inefficient institutions.
- Lecture 2:
 - Elites may block development, depending on their motivations (factor price manipulation versus rent extraction).
 - Different political regimes produce different results.
- Lecture 3:
 - Different comparative dynamics under different regimes.
 - Oligarchies more likely to stagnate in the long run.
 - The role of social conflict in influencing regime dynamics.

This Lecture

- Focus on regime **dynamics**.
- Why and when does **democracy** emerge?
- Why and when does it **consolidate**?
- How can we understand long-lived **repressive regimes**?
- This lecture a framework for thinking about these issues.
 - This framework building on Acemoglu and Robinson **Economic Origins of Dictatorship and Democracy**.

Four Alternative Paths of Political Development

- **Great Britain** (1832-1928): Gradual move to consolidated democracy
- **Argentina** (1912-1983): Large swings between democracy and oligarchy
- **Singapore** (1948-1963): From democracy to stable one-party rule.
- **South Africa** (1900-1994): From repressive apartheid to democracy.

How the Democracy Emerge?

- Although examples of democracies following revolutions exist, the typical pattern is a voluntary extension of the franchise by the current elite.
- This is typically followed by greater redistribution, pro-poor policies and removal of the privileges of the elites.
- Why would the current elite extend the franchise?
- Especially if they anticipate the changes in policies?
- Answer: though voluntary, changes in institutions respond to threats and social conflict.

The British 1832 Reform Act

- First Reform Act (1832) increases total electorate from 492,700 to 806,000, about 14.5% of the adult male population.
- Reforms clearly a response to **revolutionary threat**.
 - Luddite Riots from 1811-1816, Spa Fields Riots of 1816, Peterloo Massacre of 1819, Swing Riots of 1830, July Revolution in Paris, 1830
- Reforms thought to prevent future revolution:
 - Prime Minister Earl Grey (1831): “There is no-one more decided against annual parliaments, universal suffrage and the ballot, than I am. My object is not to favour, but to put an end to such hopes and projects ... The principle of my reform is, **to prevent the necessity of revolution** ... reforming to preserve and not to overthrow.”.

The British Case Continued

- 1832 Reform Act was only one step towards universal suffrage.
- In its aftermath, the majority of the British people still without the rights to vote, and with considerable scope for patronage, including rotten-boroughs.
- The Chartist movement trying to rectify these political inequities, but largely unsuccessful.
- But in the second half of the century, social unrest and revolutionary threat strengthened.
- This led first to [the 1867 Reform Act](#), and then finally to the more important changes with [the 1884 Reform Act](#) and the [Redistribution Act of 1885](#).

Lessons from the British Case

- The British case therefore illustrates the **gradual process** of democratization as a series of franchise extensions.
- But it also shows that it was in response to the **threat** of revolution and social unrest.
- **Question:** why democratization in response to threats of social unrest?

Main Idea: Political Institutions as Commitment

- Role of political institutions: regulate future allocation of **de jure** political power.
- Democracy changes **political institutions** and allocates de jure political power towards the poor.
- Political institutions are relatively **durable**: → changing political institutions a credible commitment to future policies.
- Therefore: democracy as **credible commitment** to pro-citizen policies.

Problems of Credibility

- **Credibility** is an issue because in non-democracy what the poor have is **de facto** political power.
- Recall that de facto political power relies on solutions to **the collective action problem**.
- Therefore, by its nature **transitory**.
- Democratization is a credible transfer of power, because it manipulates the distribution of **de jure** political power.

Basics of the Theory of Democratization

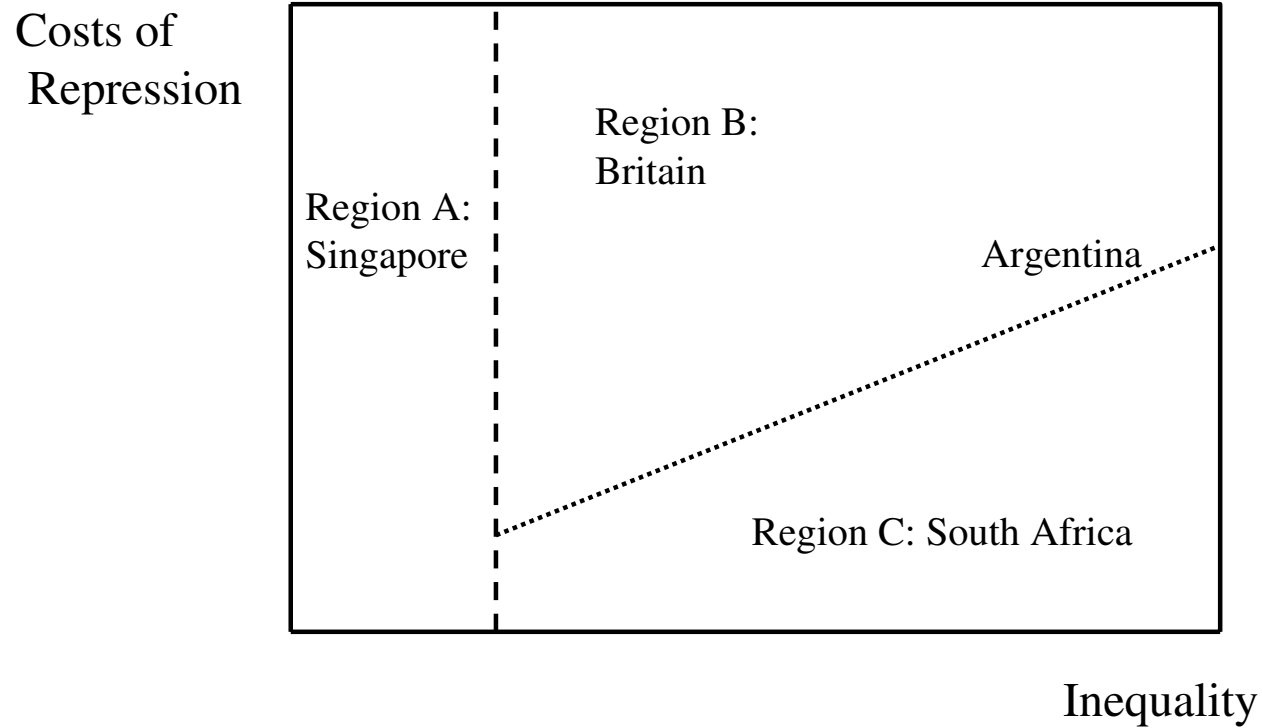
- Elites control non-democracy, but citizens can sporadically exercise **de facto power** and threaten a revolution.
- Elites can respond with
 - repression;
 - concessions with unchanged political institutions;
 - democracy.
- Democracy arises when repression is too costly and concessions are non-credible.

Comparative Statics At a Glance

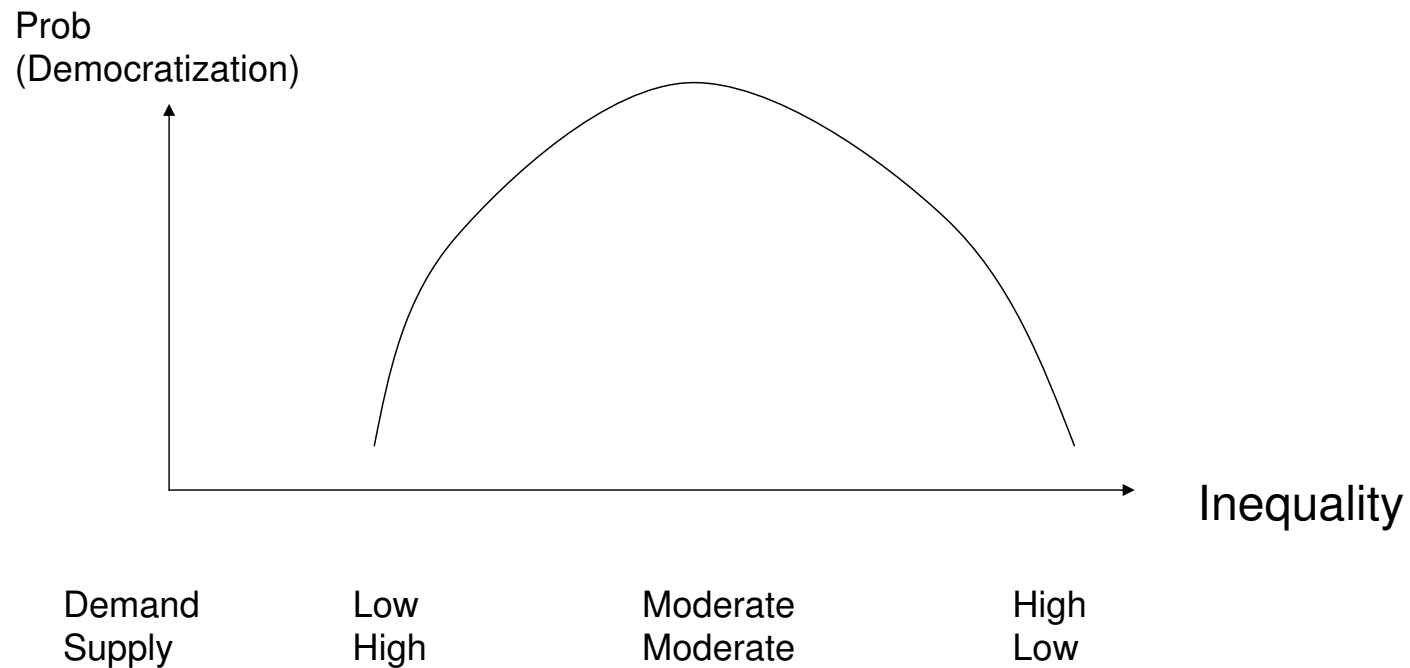
- Democracy more likely to arise when repression is costly;
 - The role of **civil society**.
- Democracy more likely to arise when inequality is limited so that the elite **less willing** to use repression.
- However, in a very equal society, the threat of revolution may never be strong enough to induce political change.
- Therefore, democracy most likely at **intermediate** levels of inequality.
- Most important: comparative statics with respect to economic structure:
 - Democracy more likely in more industrial, **capital-intensive** societies.
 - Repression more likely in rural, **land-abundant** economies.

Gaston Eyskens Lectures, Leuven 2005. Lecture 4

Democratization



A Summary of the Main Argument

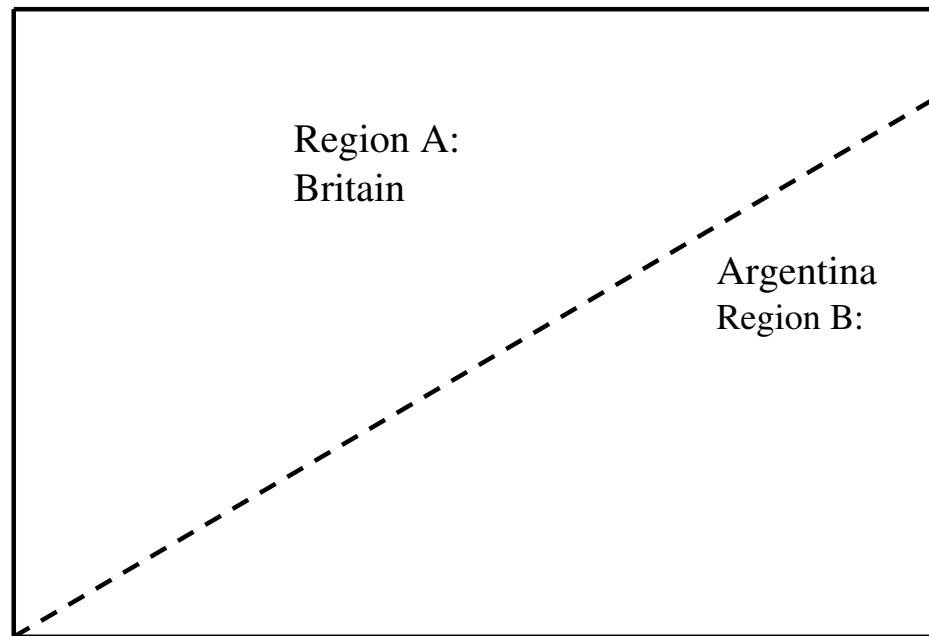


Democratic Consolidation

- When will democracy **consolidate**?
 - Similar reasoning to the creation of democracy.
 - If coups are not very costly for groups opposed to democracy, consolidation less likely.
 - Again the role of **civil society**.
 - Also, democracy more likely to consolidate when inequality is limited.
 - And also again the importance of **land rents**.
- Therefore, democracy-dictatorships cycles more likely in societies with weak civil society, high inequality and low capital-land ratios.

Democratic Consolidation

Costs of
Coups



Region A:
Britain

Argentina
Region B:

Inequality

A Dynamic Model of Democratization

- Total population is normalized to 1, a fraction $1 - \delta > 1/2$ are poor with income y^p , fraction δ is rich with income $y^r > y^p$.
- Mean income is \bar{y} , and we use θ to parameterize inequality,

$$y^p = \frac{(1 - \theta) \bar{y}}{1 - \delta} \text{ and } y^r = \frac{\theta \bar{y}}{\delta} \text{ with } \delta < \theta. \quad (1)$$

Redistribution

- The political system determines a linear tax rate $\tau \geq 0$.
- Tax proceeds of are redistributed lump-sum.
- Cost of taxation captured as $C(\tau) \bar{y}$.
- Therefore, the post-tax income level of an agent with income y^i is

$$\hat{y}^i = (1 - \tau) y^i + (\tau - C(\tau)) \bar{y}. \quad (2)$$

Fiscal Preferences

- Tax rate maximizing the utility (income) of a poor agent is $\tau^p > 0$ satisfying

$$\left(\frac{\theta - \delta}{1 - \delta} \right) = C'(\tau^p). \quad (3)$$

- Rich agent prefers $\tau^r = 0$.
- Standard result:

$$\frac{d\tau^p}{d\theta} > 0.$$

Dynamic Preferences

- Utility is defined over the discounted sum of post-tax incomes with discount factor $\beta \in (0, 1)$

$$U^i = \sum_{t=0}^{\infty} \beta^t \hat{y}_t^i = \sum_{t=0}^{\infty} \beta^t [(1 - \tau_t) \Delta_t^i(\omega) y^i + (\tau_t - C(\tau_t)) \bar{y}],$$

- $\Delta_t^i(\omega)$ is the cost due to repression for agent (or group) i , with $\omega = 0$ denoting no repression and $\omega = 1$ denoting repression, with $\Delta_t^i(\omega = 1) = \kappa$, $\Delta_t^i(\omega = 0) = 1$.
- Therefore, κ is the cost of repression.

Political System

- Initially there is a nondemocracy.
- The elite choose tax policy, whether or not to repress, whether or not to create democracy.
- If created democracy is fully consolidated (no coups); later allow for coups.
- If a revolution takes place the game ends.
- In a democracy the median voter (a poor agent) will determine policy.

De Facto Power of Poor

- Poor agents can mount a revolution in any period $t \geq 0$, if attempted it always succeeds, but a fraction $1 - \mu_t$ of income is destroyed forever.
- If there is a revolution at time t , each poor agent receives a per period return of $\mu_t \bar{y} / (1 - \delta)$. Thus no collective action problem.
- μ changes between two values: μ^H and $\mu^L = 0$, with $\Pr(\mu_t = \mu^H) = q$.
- The fact that μ fluctuates captures the importance of the **transitory** nature of de facto political power.

Timing of Events in the Stage Game

- The state μ is revealed.
- The elite decide whether to repress, $\omega \in \{0, 1\}$.
- The elite decide whether or not to extend the franchise, $\phi \in \{0, 1\}$. If $\omega = \phi = 0$, they set the tax rate.
- If $\omega = 0$, the poor decide whether or not to initiate a revolution, $\rho \in \{0, 1\}$. If $\omega = 1$, the poor cannot undertake a revolution. If $\rho = 0$ and $\phi = 1$, the tax rate is set by the median voter (a poor agent).

Dynamic Game

- This economy can be represented as a dynamic game between two players, the rich and the poor.
- Let us first focus on pure strategy Markov Perfect Equilibria.
- Key object: [revolution constraint](#)

$$V^p(R, \mu^H) \leq V^p(N, \mu^H), \quad (4)$$

- The value of revolution for the poor has to be less than living in non-democracy.

Dynamic Game (continued)

- If the Revolution constraint is violated, i.e., if $\mu^H > 1 - \theta$, the poor prefer to initiate a revolution when $\mu = \mu^H$.
- However, repression can stop revolution.
- Also, redistribution or franchise extension may induce the poor not to use their evolution option.
- Define μ^{H*} as the value of μ^H such that (4) holds with equality.

Revolution

- In general, revolution could be so attractive that it may not be prevented.
- This is a possibility in very unequal societies, with limited ability to use fiscal redistribution even when democratic.
- Assume that democratization prevents a revolution:

$$V^p(D) \geq V^p(R, \mu^H):$$

$$1 - \theta + \tau^p(\theta - \delta) - (1 - \delta)C(\tau^p) \geq \mu^H. \quad (5)$$

Preventing Revolution

- How to prevent revolution?
 1. The elite can choose to maintain political power, $\phi = 0$, but redistribute at rate $\hat{\tau}$ giving the poor $V^p(N, \mu^H, \hat{\tau})$. But this is generally not sufficient, because the elite can not commit to future redistribution.
 2. The elite can use repression. Effective against the revolution threat, but costly.
 3. If these two options are not attractive or feasible, then democratize. **Effective commitment to future redistribution** by shifting political power to the citizens.

Main Result

Proposition 1 There exists a unique Markov Perfect Equilibrium such that:

- When $1 - \theta \geq \mu^H$, there is never any threat of revolution, the rich never redistribute and the society remains nondemocratic.
- When $1 - \theta < \mu^H$, then we have:
 1. If $\mu^H \leq \mu^{H*}$ and $\kappa < \kappa^*$, then the revolution threat in the state $\mu = \mu^H$ will be met by temporary redistribution.
 2. If $\mu^H > \mu^{H*}$ and $\kappa \geq \bar{\kappa}$, or if $\mu^H \leq \mu^{H*}$ and $\kappa \geq \kappa^*$, then the revolution threat will be met by repression in the state $\mu = \mu^H$.
 3. If $\mu^H > \mu^{H*}$ and $\kappa < \bar{\kappa}$, then the revolution threat in the state $\mu = \mu^H$ will be met by [democratization](#).

Subgame Perfect Equilibria

- Does the restriction to Markov matter?
- Potentially it might, since with the Markov assumption there is less commitment (i.e., no trigger strategies).
- Nevertheless, even when we look at subgame perfect equilibria, there is still **limited commitment** on the part of the elite, because they can always renege on their promises.
- So results very similar:

Proposition 2 The form of the best subgame perfect equilibrium from the viewpoint of the elite (or of the citizens) is identical to that of Proposition 1.

Key Comparative Statics

- A **non-monotonic** (inverted U-shaped) relationship between inequality and the likelihood of transition to democracy. Democracy unlikely in very egalitarian (Singapore) or very inegalitarian (South Africa) societies.
- The structure of assets matter for democracy; e.g., land versus capital.
- Civil society—poor need to be sufficiently organized for revolution to be a threat.
- Importance of **shocks and crises**.
- Costs of repression: related to “**coercive institutions**”; how costly it is to use coercion.
 - Potentially related to underlying structure of power, organization of the state, military etc..

A Theory of Coups and Consolidation

- Consider the case where democracy is in place. When does it consolidate? When does it fall to a coup?
- Are Argentinian-style cycles between democracy (D) and non-democracy (N) possible?.
- For this, we assume that in democracy, if the rich obtain de facto power and a coup is attempted, it succeeds with probability one and transitions to a non-democratic regime.
- In the meantime, a fraction φ_t of income is destroyed at time t . φ_t changes between two values: φ^H and $\varphi^L = \infty$, with $\Pr(\varphi_t = \varphi^H) = s$.
- As a result, the regime switches next period to non-democracy where $\mu_{t+1} = 0$.

Timing of Events in the Stage Game

- Write the political regime as $j \in (N, D)$. If $j = N$, the timing is as before. If $j = D$, the timing is as follows:
 1. The state φ is revealed.
 2. The elite decide whether to mount a coup, $\zeta \in \{0, 1\}$.
 3. If $\zeta = 1$, $j_{t+1} = N$ and $\mu_{t+1} = 0$

Value Functions in Democracy

- Value of individual i in democracy as a function of cost of coup and tax rate:

$$V^i(D, \varphi^L) = y^i + NR^{iDL} + \beta[sV^i(\varphi^H) + (1-s)V^i(D, \varphi^L)], \quad (6)$$

$$V^i(D, \varphi^H, \tau^D) = y^i + NR^{iDH} + \beta[sV^i(\varphi^H) + (1-s)V^i(D, \varphi^L)], \quad (7)$$

- Value of individual i in democracy, when coup is possible:

$$V^i(\varphi^H) = \zeta(V^i(N, \mu^L) - \varphi^H y^i) + (1 - \zeta)V^i(D, \varphi^H, \tau^D) \quad (8)$$

where NR^{ijk} is the net redistribution to individual i in regime j , $\zeta = 1$ stands for a coup, and $\varphi_t = \varphi^k$.

Value Functions in Nondemocracy

- Let us assume that there is no repression or revolution in equilibrium.
- Then the value functions for individual i are:

$$V^i(N, \mu^L) = y^i + \beta[qV^i(\mu^H) + (1 - q)V^i(N, \mu^L)], \quad (9)$$

$$V^i(N, \mu^H, \tau^N) = y^i + NR^{iNH} + \beta[qV^i(\varphi^H) + (1 - q)V^i(N, \mu^L)], \quad (10)$$

$$V^i(\mu^H) = \phi V^i(D, \varphi^L) + (1 - \phi)V^i(N, \mu^H, \tau^N) \quad (11)$$

Fully Consolidated Democracy

- Define a democracy as **fully consolidated** if:

$$V^r(N, \mu^L) - \varphi y^r \leq V^r(D, \varphi^H, \tau^P), \quad (12)$$

- If this inequality holds, the rich would never want to mount a coup.
- Policy can be determined without any reference to the threat of coups.
- More formally, define $\hat{\varphi}^H$ to be the value of φ^H such that (12) holds with equality.
- For any $\varphi^H < \hat{\varphi}^H$, democracy is not fully consolidated and coups would occur if the poor pick their preferred tax rate.

Semi Consolidated Democracy

- Define a democracy as **semi consolidated** if:

$$V^r(N, \mu^L) - \varphi^H y^r \leq V^r(D, \varphi^H, 0), \quad (13)$$

- If this inequality holds, zero taxes for the elite are sufficient to discourage a coup.
- Now define φ^{H*} to be the value of φ^H such that (13) holds with equality.
- For any $\varphi^H > \varphi^{H*}$, there is a tax rate such that the poor can stave off a coup.

Main Result

Proposition 3 Assume that $\mu^H < \mu^{H^*}$, then

- If $\varphi \geq \varphi^{\hat{H}}$, democracy is fully consolidated.
- If $\varphi \in [\varphi^{H^*}, \varphi^{\hat{H}})$, democracy is semi consolidated.
- If $\varphi < \varphi^{H^*}$, democracy is unconsolidated.

Comparative Statics of Consolidation

- Greater inequality makes democracy more redistributive and coups more likely.
- Shocks and crises again important.
- Costs of coups. May depend on nature of assets in the economy and “coercive institutions.”

Economic Structure and Democracy

- Now imagine that incomes are derived from assets.
- In land-intensive societies, democracy is more likely to be redistributive, since land is **more inelastic** than capital.
- Therefore, **more repression** in **more land-intensive** societies; consistent with Barrington Moore's famous thesis.
- Moreover, if economic institutions are such that they generate **large rents** for the elite, **repression** more likely.
 - Potential explanation for persistence of repressive institutions and some former colonies discussed in Lecture 1.

Manipulating Democracy

- A less pro-poor democracy may make the elite more willing to concede democracy.
 - e.g., concessions in South Africa.
- A less pro-poor democracy may also be more likely consolidate.
 - e.g., Chilean consolidation under Pinochet's constitution.
- But if democracy is manipulated too much by the elite, it becomes so unattractive for the poor that they may prefer a revolution.

Role of the Middle Class

- Extend the model to allow for a third group, the middle class.
- Result: if the median voter is a member of the middle class, democracy is *less redistributive*.
- The elite is more willing to democratize and less willing to use repression.
- Therefore, *the middle class as a buffer*.

Globalization and Democracy

- How does trade opening affect democracy in poor countries?
- It increases the revenue of the **abundant** factor.
- Conclusions depend on what is the abundance factor in marginal democracies or non-democracies.
- Most common scenario: labor is the abundant factor, so that trade reduces inequality.
 - Likely outcome; **democracy more likely**.
 - But recall that there is an inverted U-shape relationship between inequality and democracy.
- Alternative scenario: land is the abundant factor, as in Latin America earlier during this century.
 - Then, trade may make democratic consolidation **less likely**.

Conclusion and Extensions

- Simple model for the analysis of equilibrium political institutions.
- Much more research necessary to understand the process of political reform.
- For example, forms of democracy affecting stability of democracy (e.g., presidential versus parliamentary systems).
- What makes institutions durable, credible? How can they be made more **credible and flexible**?
- More practical questions: Will Iraq or much of Africa become democratic?
- Detailed analysis of how different institutions result inherent social conflicts in society necessary.